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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS



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17 May 1984

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

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## INTERNATIONAL AFFAIRS

### BRIEFS

SOVIET-POLISH PLANNING COORDINATION--Talks were opened on 9 April in Warsaw concerning the coordination of Polish and Soviet economic plans over the period 1986-1990. The chairman of the Soviet delegation, deputy chairman of the USSR State Planning Committee, Vladimir Lakhtin, met with Manfred Gorywoda, vice premier and chairman of the State Planning Commission under the Council of Ministers. [Text] [Warsaw TRYBUNA LUDU in Polish 10 Apr 84 p 2]

CSO: 2600/951

RAPID ECONOMIC CHANGE DEMANDS UNPRECEDENTED LEGAL FLEXIBILITY

East Berlin STAAT UND RECHT in German Vol 33 No 3, Mar 84 (signed to press 27 Jan 84) pp 210-220

/Article by Prof Hartmut Badestein and Prof Gerhard Pflicke, faculty members of the 'Bruno Leuschner' College for Economics in Berlin: "On the Interrelation Between the Strong Dynamics of Economic Processes and Those of the Legal Regulation of Economics"

/Text The terms stability and dynamics, flexibility and operativity are now more frequently used in the discussion of commercial law. This is not an accidental occurrence, it is due to developmental problems. However, when these terms are used, the frame of reference is not always the same. For the relations to be probed here, it is important to establish that

- Stability and dynamics refer to the economy, economic relations and processes,
- Flexibility in economic management and activity is interpreted as an important aspect of the latter's ability to respond to changing conditions, and
- Operative management is understood to be the method of management closest in terms of time to the direct operation of economic activity on the basis of previous management activities in a wider time frame.

Insofar we are concerned with the respective conclusions for the tasks, organization and efficiency of the legal regulation of economics. However, we must note at the same time, that issues of the stability and development of the legal regulation of economics as such are raised thereby, or their stabilizing effect on regulated social relations addressed.

In practice such problems arise mainly from the different time frame of plan decisions and contract conclusion and the necessary responses to changing conditions in the further course of economic processes. This addresses in quite a new dimension the tasks of the legal regulation of economics with regard to guaranteeing the unity of plan, balance and contract and, more comprehensively, respecting the unity of planning, economic accounting and economic stimulation.

The overlapping aspect consists in the subjection of all economic processes to a great deal of dynamics--now and in future. Erich Honecker at the Seventh SED

CC Plenum<sup>1</sup> and Guenter Mittag at the Conference of GDR Economists<sup>2</sup> again and emphatically affirmed this. The main approach--intensification of production--initiated by the SED's economic strategy, comprehensively takes this dynamism into account. "Reduced to a single denominator," Erich Honecker said, "it is now imperative to make this process comprehensive and ensure stable bases for its long-term development. Whatever problems we tackle in this context--the hard core is always the speed-up of scientific-technological progress and its economic utilization...All known facts indicate that the tempestuous development of the productive forces is going to continue."<sup>3</sup>

Legal work in the national economy is therefore confronted first of all with the ideological task of developing and defining the understanding of this advanced dynamic and its objective nature, and not to leave any doubt that this is a trend determining economics as a whole. Consequently the resulting tasks are bound to last for a long time rather than something to be handled temporarily. As the SED Program<sup>4</sup> affirms, intensively expanded reproduction is indispensable for the organization of the developed socialist society, in other words it is primarily an internal development need. As we now know, this stage of social development is an inevitable and lengthy process. Operating within it are objective and often interrelated contradictions, and we need to discover their method of operation and deal with them in the sense of the further strengthening of socialism.<sup>5</sup>

Advancing intensification is a varied process of economic change and requires in particular unprecedented structural changes.

The structural change dictated by internal conditions is indivisibly linked with the resolute deepening of socialist economic integration with the USSR and other countries of the socialist community of nations, who are also marching forward by way of intensively expanded reproduction. At the same time this process is generally proceeding in real international situations that often reinforce the dynamics. Though precise needs for regulation may be deduced from certain circumstances in relative isolation, in general the circumstances mentioned earlier are intensively related. This is also reflected in Erich Honecker's statement that structural changes arising from our internal needs proceed faster and with even greater resolution due to the necessity for us to cope with the changed situation on the world markets and the attendant circumstances of the exacerbated international class conflict.<sup>6</sup> Our experiences of recent years demonstrate that we must expect often to be confronted with unforeseeable changed or novel situations, resulting mainly from international relations, and to respond to them quickly if this is required.

In the light of legal issues also, two initial and general conclusions are indeed indispensable:

1. Any consideration of the legal regulation of economics must be based on the need for the economic processes to be organized and realized with the aid of socialist law and consonant with the respective real situation. Solutions for the 1980's and beyond are what is required, taking into account all dynamics and contradictions.

2. Basically the great dynamics of economic processes do not represent a circumstance additionally to be coped with, so to speak, by the system of economic management; it is rather a circumstance characteristic for the economy of the developed socialist society and constantly to be dealt with. Consequently it challenges the entire system of management, planning and economic accounting, including the legal regulation of economics. Differentiated methods are required for dealing with it.

Before we demonstrate this need by presenting some selected groups of problems, we must comment on a legal concern that often arouses some emotion. Lawyers confronted with the need to arrive at conclusions from the great dynamics of the economic processes, are quite properly concerned with the question "how" (and sometimes even "whether") in such conditions the law is to develop its stabilizing effect on regulated economic relations consonant with its specific terms. This concern arises from the appreciation and conviction that the law can make prevail this specific advantage only if those involved are able, between establishment and realization, to count on the rights and duties relevant to future action, if they may definitely rely on their presence and thereupon build arrangements in their own sphere of responsibility. In business, this has an undeniable and special importance for the operation, oriented to the overall objective and carried out by means of the division of labor by many economy managing state organs, combines and enterprises, for the organization and preservation of the necessary coordination of their decisions and cooperation among them as the condition for the achievement of this objective with the greatest possible efficiency, for the concrete coincidence of total societal interests and the interests of combines and enterprises.

We may not deprecate this concern of lawyers--it originates with their social responsibility. Still, not all notions and expectations motivated thereby are acceptable. At times, for example (we are exaggerating here quite deliberately) the correct perception that longer periods of time between the establishment and realization of rights and duties are more beneficial than shorter ones for the stabilizing effect of socialist law in the economy, leads to the conclusion that the greater efficacy of legal means for the organization of economic relations--in particular business contracts--require a "settling down period" prior to application, a "normalization" of conditions. Without disregarding the fact that some current situations are temporary and to be dealt with precisely by performance development, such an interpretation is basically wrong and hinders the active search for effective solutions. Moreover, a lawyer is bound to come into conflict with reality if he "assumes that the economy and society might develop smoothly and without contradictions in this age so loaded with tensions."

Vice versa, it also happens that operative decisions lately required to be made to a greater extent, are closely considered in isolation of the differentiated total situation and therefore unduly emphasized. Often disregarded in this context is the fact that these great dynamics require primarily the speed-up of scientific-technological advances and their economic utilization, and that selective decisions for a longer time frame and a high degree of coordination are indispensable to enforce the structural changes necessitated thereby. We are therefore not concerned with an "either/or"; appropriate are neither ideal conceptions nor the unilateral generalization of topical complex phenomena.

Involved actually are problems arising from an objectively contradictory development. The occurrence of contradictions must be expected in the economic management system, and the system must include ways and means encouraging--and indeed guaranteeing--the timely recognition of these contradictions and the initiation of measures providing for a solution advancing the development, to ensure also that all elements of the economic management system operate in the same basic direction. It is here that we appreciate Kurt Hager's call for ideological lucidity with regard to the nature of the nonantagonistic contradictions between social and individual interests and their usefulness as driving forces of development for the management and implementation of economic operations. He emphasized that "contradictions in socialism are neither negative nor to be considered blemishes. If we were to assume such an attitude, it might lead to the failure to early recognize or to conceal contradictions as they arise, and that in turn might well exacerbate them."<sup>8</sup> For economic management it is therefore imperative to take into account the dialectic of the basic coincidence of social interests and the interests of combines and enterprises as well as their contradiction in details, to bring about concrete coincidence and help restore it (if disturbed by contradictory effects) so as to safeguard its operation as a motive force. The legal regulation of economics is therefore assigned essential tasks, especially because contradictory effects and the need to respond to them arise therefrom in concrete and unavoidable terms precisely in the organization and realization of legal economic relations. That is due to the specific nature of legal regulation but sometimes allows the impression to arise as if it primarily involved difficult legal problems, though it merely reflects contradictions with respect to economic development. At the same time we now see why lawyers, both in terms of practical application and of theory, must be concerned with contradictory phenomena and the problem of an effective response thereto.

The great dynamics of economic processes represent a challenge to practicing commercial lawyers as well as to theorists. We are unavoidably confronted with the question "how" the legal regulation for this new field of the law's operation must be organized, and not only in a general way but suitable for planned economic operations in major dimensions to be realized in the changeable and complex conditions of these 1980's. Lawyers are properly much concerned to utilize and observe the specifics and advantages of the law. They are therefore obligated first of all to probe and justify the necessity to regulate economic relations, help shape the text of the regulation to be socially efficacious in the given objective conditions, and go all out for its creative application. This must be done jointly with economists and engineers.

In the course of this interdisciplinary work in the interest of the greatest possible efficacy of socialist law, the lawyer is a necessary but not always convenient partner, because he is duty bound both to submit proposals and to oppose expectations impossible of fulfillment by any legal regulation unless specific legal requirements are met. Socialist law is able to combine stability with flexibility,<sup>9</sup> and its uniform criterion is quite capable of responding to various needs and changing conditions, but this represents an enormous challenge to legal education and the application of the law.

Quite imperative here is a differentiated approach. Developments necessary in the long run and already predictable, require a decision with a correspondingly



broad time frame; for other kinds medium-term decisions are possible and required.<sup>10</sup> At the same time we must often expect the sudden occurrence of circumstances not foreseeable at the time of earlier decisions, or at least not foreseeable in their actual dimensions. The cause may be opportunities quickly to be used as they arise in science and technology, more efficient resource utilization and changed demand, especially on foreign markets, or foreign policy factors. In this meaning we must ask for greater flexibility in management and economic operations. This appeal is directed to all economy managing state organs as well as to combines and enterprises, in particular combines with their great economic potential and national responsibility.

To begin with, all opportunities for a response must be exploited, that are available within the framework of earlier decisions. However, contradictions may also arise between decisions already made and others for which the need arises now. If necessary, these contradictions must be settled by new decisions superseding the earlier ones.

The legal regulation of economics must largely encourage and safeguard the necessary structural changes resulting from these dynamics and their positive effects on the total process in the briefest possible delay. This must be done by way of the evolution, organization and development of relations in commercial law and their interrelation. At the same time the legal regulation of economics must help guarantee the balance of the total process (and here the positive effects of structural changes for their part need to create important prerequisites). This task is not confined to any particular point in time; indeed it is an ongoing process, and the method of legal affects is differentiated, consonant with the stage of the process in which the contradiction arises.

The need for long-term, medium-term and short-term as well as operational decisions therefore requires on the one hand the organization of the rights and duties of the parties involved, the relations in commercial law and the combination of various relations in commercial law in accordance with the specific requirements of the respective time frame; on the other their relevance to the same economic processes also implies the necessity at all times to guarantee the operation of all elements of the economic management system in the same uniform direction. One of the complicated tasks thereby addressed is the need constantly to restore the material balance of the total process whenever proportions change as the result of structural change, and/or initiate the appropriate financial measures when this is required to safeguard performance-appropriate effects on legal economic accounting and economic stimulation. This is indispensable, especially so as to conform to the major basic concern, "steadily more compellingly to link the interests of combines, enterprises and individual collectives with social needs, in other words orient to the most efficient possible management."<sup>11</sup>

In the following we will address a few groups of issues which, in our opinion, merit particular attention:

1. The legal regulation of innovation processes is of increasing importance for handling the dynamics.<sup>12</sup> If we assume that scientific-technological advances and their economic utilization represent the hard core of comprehensive

intensification, the grasp of nationally important innovation processes must be assigned a special place value. These innovation processes are centrally planned and managed by way of state assignments.<sup>13</sup> The state assignment is the management tool for the coordinated preparation, derivation and classification of the tasks to be accomplished by combines and other facilities by means of the division of labor as well as for the priority organization and realization of the services required therefore. With the aid of state assignments, the scientific-technical and material performances required for the respective innovation process are defined with the greatest possible accuracy. Consequently basic national objectives merge in the combines by the close linkage of science, production and management. At the same time the respective legal relations relative to planning are coordinated and the appropriate pursuit of the decisions in the various time frames of planning guaranteed.

Also deserving of general commercial legal interest are new types of coordination and their legal organization. The state assignment also establishes a special permanent and institutionalized coordination of the main parties involved in the innovation process. This speeds up the rate of coordination and the standard of synchronization of the decisions to be made during the entire period of innovation process realization.

Part decisions to be derived from the state assignment must receive priority in the course of classification in the plans and balances of all those involved and also rank as a priority with respect to the realization from available funds. This same priority also includes the conclusion and fulfillment of necessary business contracts. All this, in turn, has great significance for the guarantee of the unity of plan, balance and contract in the successive stages of the planning process.

A great deal of attention is also due the tasking workbook<sup>14</sup> in its expanded function and manifold effects on relations regulated in commercial law and, in part, labor law. It is an effective management tool for the realization of innovations, provides the mandatory plan targets, the connection with the running of the combine, and represents the basis of financing, settlement and supervision. From the legal aspect, the defense of the tasking workbooks must be organized even more resolutely as a proper classification decision for the requirements or effects of the innovator process among the cooperation partners involved as well as the planning and balancing organs, because the issue of the approval for the tasking workbook obligates these organs also to classify and allocate their performances in terms of the division of labor. The effect of successful innovation processes, moreover, has certainly no less importance for the balance of the entire process.

2. The legal regulation of state planning and balancing for the five-year plan and the annual plans is also subject to greater demands. These arise mainly from the fact that, based on the requirements of total societal dynamics, it must help deduce the objectives for commercial and industrial sectors as well as combines and enterprises and thereby guarantee ambitious production and efficiency targets as well as proportional development. "The perfection of planning and balancing is the main approach for even more accurately ascertaining and directing the qualitative and quantitative needs of national economic

development."<sup>15</sup> That is also the decisive basis for the greater efficacy of business contracts in the planning process.

We therefore need unremitting efforts efficiently to define the specific rights and duty structure in the legal relations affecting planning between comprehensively economy managing state organs and the combines or between combines and their enterprises in balance and coordination legal relations in the planning process. Also needed are firmer links between all these relations in commercial law among themselves, and between them and legal relations with respect to cooperation. From that aspect also we are concerned with the correct view and effective utilization of the relationship between long-term, medium-term, short-term and operational planning.<sup>16</sup> Quite apart from the currently more frequently required measures of operational planning and balancing, every possible opportunity must be exploited in order comprehensively to respond within the time frame of the annual plan to new situations and opportunities presented by scientific-technological advances and the development of demand. This is particularly important, because classification in annual plan and balance decisions ensure synchronized sequences consonant with the unity of material, financial and efficiency planning within the featured structure of commercial legal relations. If this succeeded, few subsequent responses are required.

3. Business contracts, too, must be used more effectively to cope with the profound and varied process of change. When appraising the role of business contracts, we feel it would be better not so much to emphasize the quantitative relation between long and short-term contracts or the now more frequent necessity to amend or cancel contracts--although these are important analytic starting points--, but consider the opportunities and effects of their differentiated use, longer term with respect to the preparation and realization of qualitative developments (coordination contracts, long-range performance contracts with concretization stages), and short-term contracts for recurrent processes concerning raw materials, other materials and component products.

Here also the starting point is the national responsibility of the combines. The accomplishment of the economic tasks ultimately depends on the standard of their operations, whether the performer offers new and further developed high-quality products in demand, whether he is geared at the right time to exploit new opportunities made available by scientific-technological advances and changes in demand. Each combine must develop its production profile with a clear conception within the framework of central structural decisions and at a rapid rate of product and technology turnover; it must also be more flexibly responsive to changes in demand. This applies most of all to the internal division of labor and the guarantee of internal proportionality and flexibility, and the legal regulation of internal combine relations is challenged correspondingly.

At the same time the dynamics of the economic processes imply tasks to be accomplished beyond the scope of single combines. The speed-up of scientific-technological progress and its economic utilization, in particular, call on all those involved for the willingness to take risks--coordinated as to items and time--, an appropriately elevated development standard and rate of development. This results in the needed higher quality of cooperation organization and, at the same time, involves new challenges to the organization of business contracts.



The cooperating combines and their enterprises must settle their reciprocal and mutually dependent qualitative potential, product and technology development at every stage, so to speak get a firm grip on it "in movement."

At the beginning of this article we mentioned the ideological task for legal work. Here it applies concretely to the readiness and ability in the complex situations of an objectively great dynamism to organize cooperation in a mandatory form. A contract's binding force does not mean rigidity; indeed, within the contractual relationship it allows specific responses to emerging findings and conditions. Business contracts may thus contribute to greater flexibility.

These opportunities for using the business contract have not been exhausted by a long shot. Even when the parties get together in good time, the results tend often to be retained only in minutes, notes for files or other "contract surrogates," and this usually amounts to the abandonment of the advantages of reciprocal obligation. By regulating coordination and performance contracts, the contract law has created adequate foundations. However, to cope with this task, we need creative contract organization--consonant with the specific reproduction conditions. Appeals for the increased use of contracts are of no use; examples must be set, accepting of risks, trying new approaches and using the exchange of experiences. It is important that the issues respectively ripe for decisionmaking are specifically and clearly defined in terms of reciprocal rights and duties, provided that an initial threshold value for reciprocal obligations is set, taking business arrangements into account. Such contracts should also include agreements on further steps envisioned for developing the contract objective, the kind and time of operations as well as the partners' duties respecting actions and reactions. There is a specific connection between textual agreements and those regulating, so to speak, the "technology" or "procedure" of the necessary exchange of information, possibly joint consultations and the preparation and adoption of further decisions by the partners, including specific sanctions for infractions of such duties. Legal regulations may serve only to point the way and provide a rather abstract structure of rights and duties.

At the same time we must appreciate that, increasingly, we cannot afford to have a sequential preparation of economic, technical and technological measures as well as their "legal translation" into the rights and duties of a contract. Consequently economists, technicians and lawyers must cooperate consistently and right from the start. The lawyer is therefore bound to improve his ability to maintain a dialogue with managers, economists and technicians so as to be able to expertly cooperate and bring to bear the benefits and requirements of effective legal settlements. Conversely this requires the managers to be ready to utilize the benefits of a legal settlement and ask their lawyers to work to that effect.

4. Business contracts should also be used to affect the increased flexibility of combines and enterprises.<sup>17</sup> In the evolution of the economic units' ability quickly to respond to changed situations, especially changes in demand, the concern is primarily with the qualitative aspect of the development of their capacity, the flexibility and appropriateness of production conditions and the potential as well as other prerequisites. The mandatory regulation of order

and delivery dates is one method of state management to affect the development of the supplier's responsiveness.<sup>18</sup> Involved here is the period between the placement of the order or conclusion of the contract and the date of the performance. In practice a problem arises when the partners' interpretations vary and when there are no direct or sufficient economic compelling forces to act upon the supplier, especially the component supplier, to make him consider the adverse effects of delivery delays on the realization of production and the marketability of the products.

The regulation aims at cutting these delays for raw materials, other materials and component products. At the same time the use of delivery terms is in part coupled with the application of annual performance contracts to be broken down into concrete quarterly deliveries. Unfortunately it is a complicated matter to establish such delivery dates, because conditions vary exceedingly, and the regulation cannot be easily generalized. For that reason the basic regulation oriented to this aim is to be supplemented by supply orders for the products of the various industries.<sup>19</sup>

Still, the fixing of delivery dates does not ensure the appropriate quality of the material processes, but a certain legal compulsion is exerted on the performer on the basis of such directives, designed to obtain a response (delivery) on these dates. That is done mainly by the regulation of delivery dates precisely defining the duty to conclude the contract with regard to the date of the conclusion of the contract and also regarding the respective content (in the case of an annual contract, for example, the rough assortment) and the possibility of concretizing it. If necessary, the State Contract Court may order the performer to conclude the contract. The delivery dates thus serve the goal to develop the ability for a flexible response, and the measures of planning and economic accounting have the same aim.

5. Lately operational management and planning has achieved increasing importance in economic practice. It must be appreciated as the continuation with greater flexibility of the necessary management process during plan implementation. This necessitates greater responsiveness by the development of performance and reserves from all those involved in the framework of decisions made and business contracts concluded. In a considerable number of instances, though, interventions in settled business relations become inevitable and must be carried out quickly. That applies in particular to

-- Decisions within the framework of the newly regulated operational planning and balancing, that respond quarterly to changes in the planned demand and the conditions on which the plan is based, with the concomitant consequences for business contracts,<sup>20</sup>

-- Decisions in connection with the temporary operational control of certain product headings and their effect on the conclusion, fulfillment, amendment and cancellation of business contracts.<sup>21</sup>

This gives rise to specific demands on the legal regulation of economics. They involve, in particular, the legal effects of such decisions on directly or indirectly affected relations in business law, problems of the coordination of such decisions and the generation (by, for example, requests for decisions) and

the content of necessary consequent decisions for the restoration of the unity of plan, balance and contract and/or the guarantee of performance-appropriate economic accounting and economic stimulation of the economic units affected. This topic will be studied in greater detail in a later article.

In conclusion, we return to our earlier assertion that the dynamics of the economic processes basically and variously decide the demands on the legal regulation of economics. Many problems require more thorough investigation. This should be taken into account in the course of drafting the tasks of legal economic research for the next five-year plan period.

#### FOOTNOTES

1. See "7. Tagung des ZK der SED. E. Honecker, In Kampferfuellter Zeit Setzen Wir den Bewaehrten Kurs des X. Parteitages fuer Frieden und Sozialismus Erfolgreich Fort. Aus der Diskussionsrede" /Seventh SED CC Plenum. E. Honecker, In Embattled Times We Are Successfully Pursuing the Proven Line of the Tenth SED Congress for Peace and Socialism. From the Speech in the Discussion/, Berlin 1983, p 23.
2. See G. Mittag, "Oekonomische Strategie der Partei - Klares Konzept fuer Weiteres Wachstum" /The Party's Economic Strategy - Clear Concept for Further Growth/, Berlin 1983, p 52.
3. E. Honecker, as before, p 29.
4. See "Programm der Sozialistischen Einheitspartei Deutschlands" /SED Program/ Berlin 1976, p 20.
5. See K. Hager, "Gesetzmaessigkeiten Unserer Epoche - Triebkraefte und Werte des Sozialismus" /The Laws of Our Age - Driving Forces and Values of Socialism/, Berlin 1983, p 69.
6. See E. Honecker, as above, p 24.
7. O. Reinhold, "Our Marxist-Leninist Strategy to Cope with the Tasks of the Present and the Future," EINHEIT, 1983, p 1096.
8. K. Hager, as before.
9. See H. Klenner, "Marxismus und Menschenrechte" /Marxism and Human Rights/, Berlin 1982, p 122.
10. See J. Garscha, "Stabilitaet und Flexibilitaet in der Sozialistischen Wirtschaft" /Stability and Flexibility in the Socialist Economy/, Berlin 1980.
11. E. Honecker, "Rede und Schlusswort auf der Internationalen Wissenschaftlichen Konferenz 'Marx in Unserer Zeit - der Kampf um Frieden und Sozialen Fortschritt'" /Speech and Concluding Address to the International Scientific Conference 'Marx in Our Age - The Struggle for Peace and Social Progress'/, Berlin 1983, p 23.

12. See R. Streich, "The Demands of Complex Innovation Processes on Legal Regulation," WISSENSCHAFTLICHE ZEITSCHRIFT DER HOCHSCHULE FUER OEKONOMIE 'BRUNO LEUSCHNER,' 1982, pp 9 ff.
13. See Resolution on the Order for the Work with the State Assignments Science and Technology--Excerpt--of 18 February 1982, GBl I p 181.
14. See Decree on the Tasking Workbook for Tasks of Research and Development--Tasking Workbook Decree--of 17 December 1981, GB I 1982, p 1, and the First Implementing Regulation of 23 November 1983, GBl I p 281.
15. G. Mittag, as before, p 51.
16. See J. Garscha, as before, pp 125 ff.
17. See G. Mittag, as before, p 52.
18. See Decree on the Order and Delivery Terms for Raw Materials and Other Materials as well as Component Products--Order and Delivery Terms Decree--of 5 January 1984, GBl I p 9; M. Flegel, "For the Greater Flexibility of the National Economy," WIRTSCHAFTSRECHT 1984, pp 2 ff.
19. See Order on the Supply of the National Economy with Metallurgical Products --Metallurgy Supply Order--of 14 July 1983, GBl I p 209; Order on the Supply of the National Economy with Lumber--Lumber Supply Order--of 15 December 1984, p 4.
20. See G. Mittag, as before, pp 60 f; Implementing Regulation to the Decree on Materials, Equipment and Consumer Goods Balancing--Balancing Decree--of 2 June 1983, GBl I p 161, in particular Article 1 Paragraph 2 g-i, Articles 5 and 7.
21. See Article 24 Paragraph 3 Contract Law; M. Flegel, "On the New Contract Law's Taking Effect," WIRTSCHAFTSRECHT 1982, pp 68 ff.

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CSO: 2300/391

PRIVATE ENTERPRISE SETS PACE, STANDARDS IN SERVICE INDUSTRY

East Berlin PRESSE-INFORMATIONEN in German No 43, 10 Apr 84 Supplement

[Unsigned article: "Private Artisans and Tradesmen Contribute Measurably to Supplying Consumer Goods and Services to the Population"]

[Text] In both the cooperative and the private sector, artisans and tradesmen contribute reliably to the development of our national economy. At the present time we have in the GDR some 2,730 producer cooperatives and 82,130 private artisans, 11,000 private restaurateurs and 15,000 retailers.

"The socialist society offers artisans and tradesmen good opportunities for using their strength and skills in the interest of society, actively cooperating in the construction of the new society and receiving an appropriate remuneration for their labors," says the SED Program. This is a reflection of the tried and tested policy of alliances, pursued by the party of the working class.

As long ago as 1950, our republic demonstrated this attitude by the "Law for the Encouragement of Artisan Trades," enacted by the People's Chamber. This emphasized, among other aspects, that the socialist producer cooperatives have important tasks with respect to the continuing development of artisan trades and are therefore to be specially encouraged. Following the Second SED Conference in 1952, artisan trades also resolutely adopted the socialist approach. Common labor in cooperatives quickly resulted in greater productivity and efficiency. It also helped more quickly to generalize good work results and new knowledge passed on by science and technology.

Several other measures helped along the satisfactory development of artisans and tradesmen. They include the Council of Ministers' resolution (in effect since February 1976) on the encouragement of private retail stores, restaurants and artisan service enterprises in the interest of the further improvement of supplies for the population. In accordance with regional needs, more trade permits were issued. Artisans, restaurateurs and tradesmen opened their own workshops, restaurants/bars and stores or took over such facilities from fellow entrepreneurs who wished to retire. Particularly favored were and are occupations important for supplying the public, such as bakers, butchers, cobblers and watch repairers, also building craftsmen and restaurateurs.



## Varied Offer of Services

The decisive starting point for all these steps has always been the better satisfaction of public demand. In the past 5 years along, PGH's [producer cooperatives] have raised their supply, repair and service output by 28 percent, private artisans by 32 percent.

Services and repairs account for the overwhelming majority of total artisan services. More than two thirds of all services and repairs for the benefit of the public are carried out by cooperative and private artisans; in the sector of local supplies they even account for 75 percent.

Private tradesmen with or without commission trade contracts hold 8 percent and private restaurateurs 16 percent of the total turnover, a significant proportion in terms of the fulfillment of supply tasks.

Twenty-five percent of all artisan services are connected with the construction industry. More than 43 percent of the construction output of kreis managed construction and 52 percent of all building repairs are accounted for by building craftsmen. Building craftsmen thus significantly contribute to the preservation and improvement of the housing stock.

Motor vehicle mechanics carry out 48 percent of all motor vehicle repairs and about 70 percent of car repair services for the public. In 1979-1983 the output of cooperative and private motor vehicle mechanics rose to 130.6 percent. Also involved in important services to the economy and the public are private truckers and taxi drivers.

Very important for the development of artisans and tradesmen is the timely and planned training of the successor generation. Approximately 30,000 apprentices are annually trained in cooperative and private artisan enterprises. For many typical artisan occupations such as carpenters, beauty operators or cosmeticians, apprenticeship plans have been filled for years. However, particular attention needs to be devoted to occupations of special importance to the economy, such as building craftsmen, bakers, butchers, cobblers, upholsterers, tailors, carpenters and electrical repairmen for household and kitchen appliances. More young people are also training for rarer crafts, for example gardeners, glaziers, potters, ceramists or glass blowers.

Increasing success has been recorded for the common training in training cooperatives of apprentices from VEB's, PGH's and private artisan workshops. This guarantees an excellent quality of vocational training.

## Active in Social Life

Tens of thousands of artisans and tradesmen are actively involved in the social life of our country. They work in people's representations, permanent committees and their activist groups, residential district committees, artisan and tradesmen's study groups and other social organizations and institutions.

Among the deputies in the local people's representations and the People's Chamber are 5,785 cooperative and private artisans. In the residential

district committees of the National Front 15,364 of them are active, 7,124 are involved in the work of the artisan and tradesmen's study groups. Many artisans contribute their services to back the citizens' initiative "beautify our cities and communities--join in!"

#### Artisans Improve the Cost/Profit Ratio

At the present time 417,000 persons are employed as artisans in the GDR, 17,000 more than in 1979. In 1983 the output per PGH member and private artisan amounted to about M42,550, M4,170 more than in 1979.

Artisan producer cooperatives and private artisans now work on a sound economic basis. Capital equipment has almost doubled since 1972. Higher output and better supply offers to the public require artisans also to fully utilize all intensification factors, with the aim increasingly more favorably to organize the cost/profit ratio. To be mentioned are the exemplary competition obligations of the members of the Blankenburg Electrical Machine Construction PGH, the Construction Craftsmen PGH "Klinda" in Berlin-Weissensee, and the Wartburg PGH for Motor Vehicle Repairs in Schleusingen.

The competition in honor of the 35th anniversary of the GDR, conducted by all artisan enterprises, focuses on improved output, greater labor productivity, cost reductions, the efficient use of materials and energy as well as the better utilization of machinery and plant. The Sonneberg PGH "1 May," for example, has managed to lower materials consumption by M200,000 despite rising output. Its fitters succeeded in regenerating fittings, gas and water fixtures, flanges and reducing valves.

The efforts of the purchasing and supply cooperatives as the material-technical suppliers of artisans are devoted in particular to the development of local materials reserves and to making them available for individual artisans. At the same time they encourage performance comparisons between artisan enterprises. To this end they closely cooperate with the district economic councils and the local state organs and enterprises.

#### Restaurateurs and Retailers Endeavoring to Satisfy the Customers

Private restaurateurs and retailers provide a measurable contribution to supplying the public. Private restaurateurs account for about 16 percent of total turnover. A similar situation prevails with regard to drug stores (59 percent), hardware and housewares dealers (15 percent each). The 1976 Council of Ministers' resolution on the encouragement of private retailers, private restaurants and artisans largely contributed to the satisfactory developments in this field.

Trading in the best sense of the word means to be active and daily and hourly endeavor to better supply the public. Christa Ohmes, retailer in Wolfen, does everything possible to offer the people of her city, especially the workers of the chemical industry, all the produce yielded by hothouses, farm land and gardens.

## Building Craftsmen Actively Help Implement the Housing Construction Program

The implementation of the housing construction program--the core of the socio-political program of the party of the working class and the government--is indivisibly linked with the steadily growing output of building craftsmen. A wide field exists, especially with regard to the maintenance and modernization of housing, for artisans of the most varied crafts. The development of the producer cooperatives and private artisan enterprises was much assisted thereby. In 1979, the about 1,070 PGH's of building crafts counted roughly 52,000 workers; by 1983 their numbers had risen to 53,600. In 1979 we counted 12,573 private building craft enterprises; their numbers had climbed to 12,852 by 1983.

Thanks to the consistent encouragement by the party of the working class and the government, it was possible not only to compensate for the artisans retiring from work. Success was also achieved by the issue of new trade permits, consonant with national requirements, raising the numbers of private building craft enterprises. In 1979 these enterprises employed 34,377, in 1983 38,188. The output of building craftsmen as a whole rose from M3.2 billion in 1979 to M4.2 billion in 1983, roughly 30 percent. In 1983 alone, artisans in cooperative and private building craft enterprises were able to raise their construction output to 102.6 percent by comparison with 1982. Building repair services--106.5 percent were achieved--developed faster even than construction output.

Twenty percent of all repairs were minor or minimal repairs to residential buildings. Altogether, including the emergency repair services, building craftsmen managed in 1983 to deal with 500,000 cases of minor damage, improvements in the functional efficiency of gas, heating and hot water installations, ventilation and elevators. A significant proportion of these services was carried out by building craftsmen in close cooperation with the housing management enterprises.

Building craftsmen also more and more intensively utilize science and technology to raise their output. This is reflected in particular in the technological lines and special brigades for roof repairs and the repair of house chimneys as well as for the modernization of kitchens/bathrooms/toilets. Here building craftsmen closely cooperate with the kreis managed state owned construction and housing management enterprises. The use of technological lines--currently there are about 1,700--was a crucial prerequisite for output with regard to the preservation of the residential building stock which was generally raised by almost 10 percent compared with 1982; 24 percent of all existing technological lines are used by producer cooperatives and 12 percent of all special brigades for the repair of house chimneys by private building craftsmen enterprises.

## Comprehensive Offer of Services in Motor Vehicle Repair

By comparison with 1982, motor vehicle mechanics raised their service output for the maintenance of private motor vehicles by 8 percent in 1983. In the same period of time, 70 more private artisan enterprises in this field were established, and this is helping better to satisfy the growing public demand. This achievement also responds to the target set in the 1984 economic plan to raise repair services to private motor vehicles by 6.2 percent compared with the previous year.



PGH's and private artisan enterprises for motor vehicle repair are making great efforts to improve the productivity of their labor by rationalization; at the same time they strive to achieve better quality. This increasingly includes the early completion of the work involved, especially in the case of minor damage, polite customer service and the offer of expert and friendly advice. It also means to keep open the workshops at such times as enable the customer to bring in his vehicle before starting or after finishing work.

Several cooperative and private artisan enterprises for motor vehicle maintenance have begun to offer their customers comprehensive services, thus saving them from having to make repeated appointments and from long waits. This applies, for example, to the two PGH's "Good Driving" and "Painter" in Jueterbog. In both of these the customer may place an order for the repair of his vehicle, including paintwork and upholstery repairs as well as car washing and maintenance services.

#### Rationalization Aids Constructed by Themselves

The accomplishment of supply tasks at good quality and with further cost reductions calls primarily for mechanization and rationalization. New rationalization capacities are arising in all districts, and existing ones are being expanded. It was thus possible to double the construction of rationalization aids in the sector of local supply management between 1980 and 1983. The artisans themselves provided an 87 percent increase and contributed handsomely to this satisfactory development.

The purchasing and supply cooperative for mechanics in Berlin does exemplary work in this field. The artisans organized in this cooperative succeeded on their own and with their own capacities to plan and mass produce important rationalization aids for bakers and pastrycooks, for example an automated kneader for roll dough. A documentation by the center for rationalization and small-scale mechanization in the artisan trades enabled other enterprises also subsequently to construct these tested rationalization aids. In 1983, therefore, 125 such machine sets were produced, compared with only 64 in 1982.

In addition to the full utilization of capacities, the use of efficient equipment, the increased own production and use of rationalization aids, the expansion of cooperation with the state owned service enterprises are the cornerstones of the further growth of output.

The advance in the output of artisans and tradesmen is significantly encouraged by state loans. In the period 1979-1983, the State Bank granted about 2,700 loans to private restaurateurs and retailers alone, amounting to M50 million.

11698  
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DECREE DEFINES FODDER RESERVES, THEIR COLLECTION, USE

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I  
No 10, 10 Apr 84 pp 109-112

["Decree on the Comprehensive Acquisition and Effective Use of Fodder Reserves  
--Decree on Fodder Reserves--" signed by W. Stoph, chairman, Council of Ministers of the GDR, and B. Lietz, minister for Agriculture, Forestry and Foodstuffs, on 16 Feb 84]

[Text of Decree] In order to raise the domestic yield of fodder, all fodder reserves must be comprehensively acquired and effectively used in animal husbandry. The following is therefore decreed:

Article 1

Scope

(1) This decree regulates the tasks, rights and duties of

a) State organs,

b) State-owned combines, state-owned enterprises, economy managing organs, facilities, socialist cooperatives and their enterprises and facilities, the enterprises and facilities of social organizations and private entrepreneurs (hereinafter designated yield enterprises),

c) LPG's, GPG's [horticultural producer cooperatives], VEG's [state farms] and their cooperative facilities and state-owned animal husbandry enterprises (hereinafter designated user enterprises)

in the comprehensive acquisition and effective utilization of fodder reserves.

(2) This decree also applies to members of the Union of Small Gardeners, Settlers and Small Livestock Breeders (VKSK) and other private livestock owners who collect kitchen waste on their own behalf and use it for their livestock.

## Article 2

### Definitions

(1) Fodder reserves in the meaning of this decree are all byproducts and waste products arising in the national production process, in biological and technical processes as well as in social and individual consumption, and which are suitable for fodder either directly or after appropriate treatment (see attachment).

(2) Kitchen wastes in the meaning of this decree are wastes derived from private households, restaurants and facilities for institutionalized catering, potato peel and wastes left over after potato washing and processing, fruit and vegetable wastes arising in the wholesale and retail trades, washing and peeling installations as well as no longer salable foods from production, the wholesale and retail trades, suitable for fodder either directly or after appropriate treatment.

(3) Fodder collection brigades in the meaning of this decree are collectives of city management VEB's, other state-owned enterprises and facilities of local supply management and utilization enterprises, who collect kitchen wastes as per agreed schedules, if necessary wash and make them available for effective use in animal husbandry.

(4) Collection permits in the meaning of this decree are permits issued to members of the VKSK and other private livestock keepers for collecting kitchen wastes in a specified territory.

## Article 3

### Comprehensive Acquisition of Fodder Reserves

(1) In close cooperation with the social organizations and the committees of the GDR National Front, state organs must ensure that fodder reserves in their sphere of responsibility are comprehensively acquired and made available for effective use in animal husbandry.

(2) State organs must decide yield normatives for fodder reserves incident upon the production process, with the exception of kitchen wastes as per Article 2 Paragraph 2, precisely define them each year and consistently include in their management activities the tasks for the comprehensive acquisition and supply of these fodder reserves for effective use in animal husbandry.

(3) Yield and user enterprises occasionally having fodder reserves in hand must acquire them comprehensively, report them to the kreis councils, department agriculture and food industry, and make them available for effective use in animal husbandry.

(4) Yield enterprises must promptly notify the kreis councils of byproducts and/or waste products occurring in the production process and not yet used as fodder reserves, if they could be suitable for use in animal husbandry.

#### Article 4

##### Effective Use of Fodder Reserves

On the basis of contracts, user enterprises are responsible for the complete acceptance, low-loss processing and effective use of the fodder reserves in animal husbandry. They must, in particular, guarantee that

- a) All fodder reserves are included in the enterprise fodder balances, taking quality into account,
- b) Feeding schedules are adapted to the concentrated use of fodder reserves,
- c) Balanced fodder rations are used on the basis of the GDR fodder evaluation system,
- d) Veterinary-hygienic requirements are observed with regard to processing designed to kill off infectious organisms likely to cause epizootics or to detoxify.

#### Article 5

##### The Tasks of Central State Organs

- (1) Central state organs must make sure that state targets and plan quotas for the comprehensive acquisition of fodder reserves incident upon the production process are fixed in their sphere of responsibility within the framework of economic planning; they also must supervise fulfillment.
- (2) The Ministry for Agriculture, Forestry and Foodstuffs is responsible for the national coordination of the measures for the comprehensive acquisition and effective use of fodder reserves in animal husbandry, and issues state targets and plan quotas to the district councils for the efficient use of the fodder reserves; the district councils must pass these on to the kreis councils consonant with regional yield conditions.
- (3) The services and facilities of the veterinary system are responsible for the supervision of the observance of veterinary-hygienic measures affecting the acquisition, transportation, processing and use of fodder reserves. The head of veterinary services at the Ministry for Agriculture, Forestry and Foodstuffs is therefore authorized to issue veterinary-hygienic instructions with regard to the acquisition, processing and use of fodder reserves in animal husbandry.

##### The Tasks of Local Councils

#### Article 6

- (1) In their spheres of responsibility, district, kreis, city, city district and community councils must guarantee the comprehensive acquisition and effective use of fodder reserves in animal husbandry. They must direct the state

measures for the acquisition of fodder reserves as well as encourage and coordinate social initiatives. They carry out these tasks in close cooperation with the social organizations and the committees of the GDR National Front. District and kreis councils are responsible for incorporating fodder reserves in the fodder balances of districts and kreises as well as of the user enterprises. Vis-a-vis the user enterprises, they must take into account the fulfillment of set tasks for the acquisition and use of fodder reserves when allocating state balanced fodder.

(2) Taking into account the differing yield conditions, district and kreis councils must draft and steadily more precisely define regional conceptions for the comprehensive acquisition and effective use of fodder reserves, especially with regard to their use appropriate to the respective types of livestock.

#### Article 7

(1) Within the framework of economic planning, district, kreis, city and city district councils must fix state targets and plan quotas for the comprehensive acquisition of fodder reserves in the production process of the yield enterprises as well as for the collection of kitchen wastes by those assigned to their transportation as per Paragraph 4; they must also guarantee that contracts as per Article 11 are concluded on this basis.

(2) In their sphere of responsibility, kreis, city, city district and community councils must organize a coordinated system of kitchen waste collection and ensure that kitchen wastes are comprehensively acquired and made available on the basis of contracts as per Article 11 by the wholesale and retail trades, the facilities of institutional catering and utilizing available experiences.

(3) In their sphere of responsibility and taking into account optimum transport distances, kreis and city councils decide to which user enterprises to allocate the fodder reserves for effective use in animal husbandry. Fodder reserves are primarily to be used in user enterprises with concentrated livestock holdings. An exception are the fodder reserves that are state balanced or subject to use instructions issued by the Ministry for Agriculture, Forestry and Foodstuffs. Taking into account these decisions, the chairmen of kreis or city transport committees must issue directives on the best possible organization of the transportation of fodder reserves from the standpoint of energy consumption.

(4) City management VEB's, other state-owned enterprises and facilities of the local supply management and others designated by the kreis or city councils must carry out the collection and transportation of kitchen wastes on the basis of regular schedules in close cooperation with the yield enterprises and those user enterprises which do their own collecting. Kreis or city councils may assign to selected user enterprises territories for their own collection and transportation of kitchen wastes.

(5) If the recovery of kitchen wastes by fodder collection brigades happens to be inappropriate in some regions, kreis, city and community councils may, in their sphere of responsibility and in coordination with the kreis veterinarians, issue collection permits to members of the VKSK and other private livestock keepers for their own collection of kitchen wastes for effective use for their livestock.



## Article 8

Kreis councils must ensure that a decision is issued by the Central Agency for Fodder Testing and Fodder, Halle-Lettin, in coordination with the State Veterinary Testing Institute at the Ministry for Agriculture, Forestry and Foodstuffs, regarding the suitability for use as fodder of the byproducts and/or waste products reported as per Article 3 Paragraph 4, and which might be suitable for use in animal husbandry. The Central Agency must enter in the GDR Fodder Register the byproducts and/or waste products suitable for use as fodder.

## Article 9

(1) District, kreis, city, city district and community councils must assist the yield and user enterprises in the comprehensive acquisition, collection, rational transportation, loss-poor processing and effective use of the fodder reserves in animal husbandry, utilizing regional potentials and reserves. This applies especially to measures of regional rationalization, especially in the development of the material-technical basis, and the improvement of working conditions for cooperative farmers and workers.

(2) While observing the fixed ranking and sequence of investments, the available material and financial funds for the collection, processing, storage and use of fodder reserves must be employed in such yield and user enterprises as are earmarked for the increased collection and use of fodder reserves.

(3) District, kreis, city, city district and community councils guarantee the generalization and popularization of the best experiences for the comprehensive acquisition, loss-poor processing and effective use of fodder reserves in animal husbandry.

## Article 10

### Persons Responsible for the Comprehensive Acquisition and Effective Use of Fodder Reserves

The directors, chairmen and managers of yield and user enterprises must appoint persons to be responsible for the comprehensive acquisition of fodder reserves and their effective use in animal husbandry. They must assist the directors, chairmen and managers of the yield and user enterprises in the drafting, planning and execution of measures for the comprehensive acquisition and effective use of fodder reserves in animal husbandry. They are responsible for smooth cooperation between the yield and user enterprises and organize their timely contract conclusion as per Article 11 as well as contract dates and quality appropriate fulfillment.

## Article 11

### Contract Conclusion

(1) Yield and user enterprises must conclude contracts on the acquisition and supply of fodder reserves. When city management VEB's, other state-owned enterprises and facilities of the local supply managements as well as assignees

of kreis or city councils carry out the transportation of the fodder reserves, contracts must be concluded between them and the yield as well as the user enterprises.

(2) To be specially agreed in the contracts are:

- a) The type of fodder reserve,
- b) The quantity and quality including the minimum dry substance content as well as the settlement. (Orientation quantities must be agreed in contracts as per Article 7 Paragraph 2).
- c) The method of fodder testing as proof of quality,
- d) Collection and delivery dates,
- e) The price, including quality dependent price surcharges and discounts,
- f) The method of transportation, loading and unloading as well as cleaning and disinfecting the transport vehicles and collection containers,
- g) The location of the service,
- h) The payment terms to be used,
- i) The legal penalties for neglect of the obligations incurred.

(3) Contracts concerning the supply of fodder reserves of animal origin, kitchen wastes or malt germ require confirmation by the kreis veterinarian. The head of the veterinary service at the Ministry for Agriculture, Forestry and Foodstuffs is authorized to decide on obligatory confirmation by the kreis veterinarian with respect to other fodder reserves.

#### Payment and Bonuses for Making Available and Collecting Kitchen Wastes

##### Article 12

(1) User enterprises must pay the price fixed in legal regulations to the city management VEB's, other state-owned enterprises and facilities of the local supply managements and the kreis or city council assignees for the collection of kitchen wastes and transportation of untreated kitchen wastes, taking into account the fodder value and quality.

(2) The city management VEB's, other state-owned enterprises and facilities of the local supply managements and kreis or city council assignees for the collection and transportation of kitchen wastes must pay to the yield enterprises the price fixed by legal regulations<sup>2</sup> in accordance with the fodder value and quality of the untreated kitchen wastes, if larger volumes of kitchen waste are involved and made centrally available. Bonus payments from these earnings have to be made to the working people in the yield enterprises, who are responsible for the comprehensive acquisition and centralized availability of kitchen wastes at the agreed quality.

## Article 13

(1) Kreis, city and city district councils must annually plan the bonus payments for the collection of kitchen wastes and earmark them in their budgets. Kreis, city and city district councils must as follows quarterly in the planning period earmark the use of these bonus moneys in response to the results and performances achieved for the benefit of large collections and the development of other reserves:

- a) Janitors and building superintendents as well as collectives and workers in the yield enterprises and other citizens who actively help acquire kitchen wastes and preserve their quality may be paid a bonus of up to M20 per ton,
- b) To reward exemplary building associations and citizens who achieve outstanding results in the collection of kitchen wastes within the framework of the citizens' initiative "beautify our cities and communities--join in!" bonuses may be paid to residential district committees of the GDR National Front.
- c) Fodder collection brigades recording outstanding results in the comprehensive collection and loss-poor processing of kitchen wastes may be paid up to 15 percent of the earmarked bonus moneys in addition to the planned enterprise premium fund.

(2) After consultation with the fodder collection brigades, city management VEB's, other state-owned enterprises and facilities of the local supply management and user enterprises collecting kitchen wastes will submit proposals to the kreis, city and city district councils regarding bonus payments as per letters a and b.

(3) When reporting the results and performances achieved, kreis, city and city district councils must provide an exact accounting of the use of these earmarked bonus moneys.

## Article 14

### Tax Liability

Bonus payments as per Article 12 Paragraph 2 and Article 13 are exempt from wage tax. They are not subject either to contributions to social security, nor are they part of average earnings.

## Article 15

### Administrative Penalty Provisions

(1) A reprimand or administrative penalty of M10-M500 may be imposed on anyone who deliberately

- a) Makes available for feeding purposes byproducts and/or waste products other than stated in Article 2 Paragraphs 1 and 2, mixes or feeds them with fodder or fodder reserves,



- b) Counter to the provisions of Article 3 Paragraph 3 fails to acquire, report or make available fodder reserves suitable as fodder directly or after appropriate treatment,
- c) Counter to the provisions of Article 4 fails to accept, process or use fodder reserves,
- d) Counter to the decisions as per Article 7 Paragraphs 2, 3 and 4 fails to collect or transport fodder reserves,
- e) Counter to the provisions of Article 7 Paragraph 5 collects fodder reserves without a collection permit or in territories not assigned him by the kreis, city or community council,
- f) Acts counter to the provisions of Article 11 Paragraph 3.

(2) An administrative penalty of up to M1,000 may be imposed on anyone who deliberately, as per Paragraph 1

- a) Causes or might have caused major damage,
  - b) Grossly disregards social interests,
  - c) Considerably infringes state or public order, or
  - d) Commits a deliberate misdemeanor for personal gain, or repeatedly within 2 years and was fined as a result.
- (3) The conduct of the administrative penalty proceeding is in the competence of the chairmen of kreis, city and city district councils as well as the appropriate full-time and expert members of kreis, city and city district councils.
- (4) Applicable for the conduct of administrative proceedings and the imposition of fines is the law of 12 January 1968 on Combating Misdemeanors--Misdemeanors Law--(CBl I No 3 p 101).

#### Concluding Provisions

#### Article 16

Legal regulations on the implementation of this decree will be issued by

- a) The Minister for Agriculture, Forestry and Foodstuffs in agreement with the competent ministers and managers of other central state organs and in coordination with the competent central managements of social organizations;
- b) Competent ministers and managers of other central state organs in coordination with the Minister for Agriculture, Forestry and Foodstuffs.

#### Article 17

- (1) This decree takes effect on 1 May 1984.
- (2) Losing effect at the same time are:
  - a) Order of 19 October 1960 on the Removal of Centrifuge Mud in Dairies (GBI II No 37 p 418),
  - b) Article 14 of the Third Implementing Decree of 14 May 1970 to the Environmental Control Law--Keeping Cities and Communities Unpolluted and Using Residential Wastes--(GBI II No 46 p 339).

#### FOOTNOTES

1. In effect at this time is Price Order No 450 of 21 January 1983 on Industrial Prices of Fodder (GESETZBLATT Special Issue No 1108).
2. In effect at this time is Price Order No 450/1 of 28 December 1983 on Industrial Prices of Fodder (GESETZBLATT Special Issue No 1108/1).

#### Attachment to the Preceding Decree

##### Fodder Reserves

1. Wastes from cereal cleaning and processing, seed cleaning, grain and fodder handling, insofar as they do not include any substances liable to damage the animal organism or leave residues in the livestock and livestock products;
2. Baking wastes, waste dough, waste flour and other wastes of the bakery and pasta industry;
3. Brewer's yeast, brewer's grains, mash, malt germs and other wastes of breweries, distilleries and maltings;
4. Protein mix silage, fish silage, fodder blood and other slaughtering wastes as well as other wastes of the meat and fish processing industry;
5. Potato pulp, dextrose mother liquor and other wastes of the starch producing and potato processing industry;
6. Hide scraps, sizing water and other wastes of the leather processing industry;
7. Wastes of the sugar beet processing industry;
8. Whey, butter water, caseine (fresh), red wash, centrifuge mud and other wastes of the dairy industry;

9. Husks, peel and other wastes of the fruit and vegetable processing industry;
10. Incubator wastes, egg shells, egg fodder mass;
11. Acorns, horse chestnuts, beech nuts, pine needles;
12. Poultry bedding straw, solid residues of liquid pig manure, and so on;
13. Kitchen wastes;
14. Other fodder subject to mandatory state standards or instructions, or entered in the GDR fodder register.

11698

CSO: 2300/428

# FINDINGS OF TASK FORCE ON FURTHER ECONOMIC REFORM SUMMARIZED

Budapest TARSADALMI SZEMLE in Hungarian No 11, 1983 pp 11-29

[Text of a summary report by Ferenc Kozma, Secretariat for International Economic Relations: "Further Development of Our Macroeconomic Management System in the Service of Building Socialism. Summary Report of a Professional Task Force"]

[Text] A few month ago, the editors of TARSADALMI SZEMLE organized a professional task force to exchange views on the basic policy questions of macroeconomic management, to gather, debate and synthesize constructive ideas and proposals on this topic, and to help clarify the most important related theoretical questions. When discussing this range of subjects, the task force strived to emphasize the social interrelations and ideological aspects, but without neglecting the practical aspects as well.

The members of the task force were: Maria Augusztinovich (National Planning Office), Tamas Bacskai (Hungarian National Bank), Istvan Bihari (Chinoi), Laszlo Bukta (National Council of Trade Unions), Magdolna Csath (National Management Training Center), Adam Juhasz (Ministry of Industry), Mrs Janos Juhasz (Central Statistical Office), Ferenc Kozma (Secretariat for International Economic Relations), Tamas Sarkozy (Karl Marx University of Economic Sciences), Tamas Sugar (Ministry of Foreign Trade), Ilona Tatai (Taurus), and Julia Zala (Hungarian Chamber of Commerce). Ferenc Kozma directed the professional task force's work. He also summed up for our journal the most important elements of the interviews and partial studies.

The frequently changing requirements of our time present ever-newer tests for our socialist economy, and this is one of the basic driving forces of our development. The level of development attained earlier demands significant modification of our economic and social objectives and, in conjunction with them, also the transformation of our style of management, and of the efficiency of our work and leadership. These changes then pave the way for the next stage of development. This constant development of society demands the continuous renewal and self-correction of socialism's mechanisms and institutions. There

are two palpable stages and types of renewal: continuous development, which includes major or minor corrections in the elements of the already existing mechanisms and institutions as we go along; and a condensed phase in time, during which new concepts emerge that are based on critical analyses of the earlier development and lead to comprehensive, systematized and reform-like changes. Socialism's existence is inseparably connected with continuous adjustment to the requirements of self-induced development, and thereby with consciously laying the foundation for the next stage of further development.

Modifications of the external, environmental factors compel changes in macro-economic management, particularly in open economies. The profound rearrangement that occurred in Hungary's external economic environment during the past decade is urging a change in the style of management at both the macro- and microeconomic levels. However, the extent of our indebtedness, and developments in the international commodity and money markets could create a difficult situation in which the liberation of national energies through the modification of management methods, economic mechanisms and institutions might slow down. Now and presumably for a good many years to come, we cannot approach the solution of our economic tasks by using more resources, nor by providing from increasing incomes the basis of better incentives. We can weather our present difficulties--and pave the way for our faster, more conspicuous and perceptibly more fruitful development tomorrow--primarily by using our available factors of production better, more intelligently and skillfully, with more ingenuity, i.e., on a higher level of purposefulness and economic efficiency.

These circumstances enhance the value of the human factor in economic policy. The conditions that have evolved demand that we modify systematically the socioeconomic relationships of interest, organization, information and decision-making, in such a way that the conditions resulting from the modifications compel us to work harder, and to think and act more independently, provide substantially more room for the initiatives of individuals and economic collectives, and at the same time make the state better suited for managing a vigorous economy in a planned manner.

In our time, work on the further development of macroeconomic management has accelerated. The party is providing the initiative for the unfolding of this work. These efforts are not limited to the areas of planning, regulation, system of organizations, or the economy in the narrower sense. They affect our entire society's aspect and motion, our own way of thinking and actions, prying them loose from the present accustomed reflexes.

The changes must have a beneficial effect first of all on the functioning of the economy, increasing its efficiency. Macroeconomic management's further development is intended to relieve the pressure resulting from the conditions of equilibrium, and thereby to gradually relax the restrictions on investments and consumption, and simultaneously to switch the people and the enterprises over to the "intensive path," and to adjust their responses to this path. The modifications' objective must be to change the style of work and management, in the direction that these historical times demand. We must develop further our socialist production relations in such a way that people will link their interests and awareness more closely to the production collectives of the more successfully operating enterprises, and the production collectives will increase



their activity in the elaboration and realization of tasks that concern the entire national economy. And finally, the accelerating economic and social changes necessarily affect the set of social values in a wider sense, as well as consciousness and human relations. The growth of initiative and the widening of the room for its assertion are channeling our lives toward a greater sense of responsibility, sensible risk-taking, toward demanding more of ourselves and others, and toward the development of more civilized human relations. Failure to introduce our reform measures would not only make our economy in the narrower sense unable to maintain itself and grow, but it would also undermine our general personal and social ability to overcome difficulties.

The changes that are to be made in the economic mechanism and system of institutions will necessarily affect also individual and social relations: the ways of earning income will change, income ratios will be different from the present ones, the situation and prospects of many enterprises will alter, relations between the enterprises and their managing organs will be transformed, as will the division of labor among the central managing organs. All this will not remain without impact on the situation of certain strata, professional groups, families and individuals: their financial situation and position in society will change more or less. These motions must find neither the planners of the changes nor the affected population groups unprepared.

In the course of developing the system of macroeconomic management, therefore, we must take circumspectly into consideration the effects on social awareness. The objective to be achieved is an increase of socialism's ability to adjust actively to the new conditions of development, and thereby the strengthening of our social system's basic socialist characteristics.

#### Two Basic Dimensions of Socialist Economic Relations

The system of macroeconomic management must simultaneously satisfy two basic requirements. On the one hand, it must adequately regulate the national market where the relations and conflicts of interest that have developed between the owners of commodities and the owners of incomes in the course of the social division of labor must be kept within the limits of the economy's ability to tolerate conflicts, while at the same time the conflict tolerance of the economic subjects must also be increased. And on the other hand, the system of macroeconomic management must regulate the relationship between partial interests and the more general interests, and for the conflicts of interest arising in this cross section it must ensure forms of motion, specifically ones that will steer in the direction of social progress.

For the sake of simplicity, we will refer to the division-of-labor and market relations between the individual commodity owners and income owners as "horizontal" relations; and the system of relations between individuals, economic organizations and the entire national economy--in other words, between social entities ranging from the more simple to the more complex--we will call "vertical" relations.

On the one hand, macroeconomic management must regulate the entire system of "horizontal" relations, i.e., the national market and its functioning. At the same time macroeconomic management cannot disregard the fact that the national

market itself is an extremely complex phenomenon that comprises relatively independent subsystems such as, for example, the investment market, the market of goods and services for personal consumption, the market for state procurement, and the market for products intended for further processing (materials, semifinished products, parts, etc.). Furthermore, that at almost every point the national market is linked directly or indirectly to the foreign market. The conflicts of interests, and the modes and possibilities of bridging them, differ in each of these market subsystems, and also the efforts to remedy them raise problems of regulation and organization that differ in many respects. At the same time, the national market must also be unified. Thus the system of macroeconomic management must not only take the peculiarities into consideration, but must also ensure unity.

On the other hand, the system of macroeconomic management must regulate also the "vertical" relations in their entirety; in other words, it must provide forms of motion for the relations between the individual and the economic collective, as well as between the economic collective and the national economy. Here it should be noted that society's subdivision, which ranges from the individual as the "atom" or basic unit to the national community, is likewise complex and multilayered. At their workplaces the individuals may be organized into smaller production collectives (brigades, for example). These production collectives in their turn are grouped into larger units (for example: shop, plant, factory unit, etc.) that have, or can be entrusted with, common interests. These larger units jointly constitute the independent economic organization (which may be a state enterprise, cooperative, a company formed by a business association, etc.). In the following we will simply refer to independent economic organizations as enterprises. The enterprises may be integrated further. Individuals on their part belong to families, may form neighborhood collectives, live in small or large settlements, etc.

We encounter interest relations in both dimensions. These interest relations are embodied in interests associated mostly with money incomes, although also motives that cannot be traced directly or indirectly to the interest in income are by no means negligible. The commodity nature of the socialist economy leaves its imprint on both projections of the social structure.

In a commodity-producing economy based on capitalist private ownership, both systems of relations, horizontal as well as vertical, are subordinated unambiguously to the equality of the commodity owners, and to the inequality that is based on capital monopoly. This duality is what makes capitalism what it is. On the one hand, this contradictory duality is an enormous force that compels capitalism to expand, to rapidly adjust to the circumstances, and to seek constant innovation. On the other hand, it is a hotbed of conflicts that are the sharper, the more widespread the capitalist conditions and the more advanced the established productive forces' system which mankind is operating within this social structure. This contradictoriness leads to where the state in modern capitalist societies is forced to undertake very active, and not unsuccessful, attempts to develop a system for reconciling society's interests, in the horizontal as well as the vertical direction.

Under socialism, both systems of relations, horizontal as well as vertical, are based essentially on the direct interests of the economic subjects and

collectives. Economic policy, which organizes the relations of differentiation that are expressed in the direct interests, must see to it that these relations do not degenerate in the direction of either anarchy or rigid hierarchy. In the socialist commodity-producing economy it is necessary to create conditions of operation such that will allow the consensus-based cooperative nature of social relations to assert themselves, and will underscore the solidarity of the individuals and groups that enter into mutual relations of any kind.

Naturally, the relations between commodity owners as well as the relations of the part-to-whole type generate daily thousands of conflicts of interest and major or minor conflict situations. We must accept these conflicts. But their acceptance does not mean impotence or passivity toward them. Socialism's relations that are built on cooperation and solidarity manifest themselves primarily in that we strive to anticipate, or to prevent the aggravation of, major conflicts through social foresight and the collaboration of the social forces, i.e., by constantly seeking sensible compromises that are in the common interest. Consensus emerges specifically in this activity to prevent the outbreak or aggravation of conflicts: "horizontally" between the individual economic units that maintain commodity relations with each other, and "vertically" between social collectives of different composition.

Organized and planned reconciliation of interests is essential to any society based on modern productive forces. In the structure of modern capitalist societies the reconciliation of interests is an element foreign to the system, built by necessity over the contradictory structure. Under socialism, however, efforts to reconcile interests are a basic characteristic of the system, specifically because of socialism's cooperative nature and its relations based on solidarity. However, this reconciliation of interests does not occur automatically and cannot be free of conflicts, for also the commodity and money relations through which the interests clash are peculiar to the socialist system. For this very reason the aforementioned social consensus must not allow the permanent assertion of interests associated with the maintenance of less efficient solutions, against the interests to introduce new and more efficient solutions. The reconciliation of interests must lead to economic development.

#### Problems of 'Vertical' Subdivision

The investigations and debates of our task force centered on the dimension of vertical relations. We extended our analyses to the system of regulating the mutual relations between commodity owners only insofar as we perceived strong interaction between the horizontal relations and the individual-enterprise-state relations.

Incidentally, the three "protagonists" or levels of integration are multifaced and contradictory.

a. The individual participates in the economy in his dual capacity, as both producer and consumer. The two are interrelated: the individual works in order to earn income (that of course is not the only reason: work is a vital necessity, and occasionally it can offer a high level of enjoyment) and spends most of his income on consumption in order to reproduce his capacity to do useful work. At the same time, one of man's characteristics (let us frankly



admit it) is that he would like to maximize his income for minimal performance; in this sense the individual's dual capacity conceals an internal contradiction.

b. The enterprise, however, is an economic organization in a threefold sense: first, it is an alliance of the people within it, for the purpose of ensuring their livelihood; secondly, it is a collective business that wants to develop and expand; and thirdly, it is a link in the national division of labor. (In this last capacity, the enterprise is linked horizontally to the other business organizations.)

The threefold nature of the enterprise is complementary in one respect: Under a suitable system of macroeconomic management, the road to a secure livelihood, and especially to its improvement, leads through successful business ventures, and this is also the road along which the collective can optimally fit into the social division of labor. If this division of labor is sound, it provides the framework for the business ventures and ensures a secure livelihood. But a lack of entrepreneurial ability or adventuristic risk-taking can jeopardize the collective's income and the nation's economic situation as well. The simultaneous existence of all three capacities again conceals contradictions. Thus we find that enterprises too want to maximize their income for minimal performance (by raising prices, for example). This ambition is actually the distorted assertion of the basic requirement of profitability, in an environment where there is no pressure to perform. Therefore we must create conditions such that the individual and the enterprise will be induced to increase their performance as long as they are able to increase their income, and without useful additional performance over a longer period of time their incomes will be declining.

c. Of course, the nature of the socialist national economic collective is likewise threefold. One objective of this collective is to improve the population's living conditions, and to maintain and increase prosperity. Another objective is to ensure the national economy's development (in this sense, the national economic collective is also entrepreneurial by nature). A third objective is to maintain social stability and the equilibrium of the reproduction process, and to ensure secure conditions for living and development. In the aspects discussed here, the state too has interdependent and mutually contradictory characteristics.

#### Socialist Economic Policy's Interest-Reconciling Function

From the preceding it follows that socialist economic policy--and, subordinated to this policy, also macroeconomic management--has a peculiar balancing role; its function is to reconcile the contradictory motivations of the three protagonists.

Economic policy relies on the expectation that the individual, in his capacity as producer, supports the enterprise; and that the enterprise, in its capacity as entrepreneur, promotes the national economy's dynamic development. On this plane, then, a vertical community of interests of one kind can be formed. Furthermore, economic policy also anticipates that the individual, in his capacity as consumer, regards the enterprise as "a collective that ensures his livelihood," while the enterprise is the natural partner of the state that strives

for public welfare. Finally, economic policy must also strive to fit the enterprise's economic activity into the social division of labor in a way such that the enterprise's activity will be in harmony with the state's efforts to ensure stability and equilibrium. However, the state's objectives can be translated into the "everyday" language of the population's interests only if economic policy as a whole is able to mutually reconcile the livelihood-welfare and entrepreneurial-developmental interests and efforts. The larger the area where these two types of effort overlap, the greater the likelihood that the enterprises' activity can be integrated into a social division of labor that meets the requirements of the times. This is a condition also of the population's general satisfaction, of good political and economic morale.

The system of enterprise organization and incentives, and the style of management are able to promote the most directly a sensible compromise between the individual's two selves, as producer and consumer. With regard to enterprise-individual and enterprise-enterprise relations, the state's role can be only secondary, corrective. This is not in conflict with the fact that also the state's aforementioned corrective role--through regulation and the set of values transmitted by regulation--is important in these relations.

The mode of resolving the enterprise's constantly arising dilemmas, its conflicts of livelihood-entrepreneurship-adjustment, is determined primarily by how realistic is the state's economic policy and by what system of organization and regulation is in force, respectively by the socioeconomic norms and inducements that this system transmits. The effectiveness of economic policy directed toward the enterprises determines how the state's policy dilemma is resolved in setting the right proportions for the priorities of public welfare, development and equilibrium. For both the success and the failure of this economic policy are reflected in the behavior of the enterprises and of their workers as well. But this is merely one side of the coin. The other side is that the enterprise is unable to develop the right system of organization and incentives, without the active cooperation of the individuals. And in the same manner the state is unable to ensure for the enterprises, without their active cooperation, suitable room for movement. Thus the flow of information and the reconciliation of interests that are necessary to formulate a purposeful economic policy are bidirectional and cover entire society, in all its cross sections.

#### Development of Entrepreneurial Willingness an Essential Task in Perfecting Macroeconomic Management

Our macroeconomic management must provide a favorable organizational and incentive environment, and favorable conditions of reproduction, for the established socialist businesses that adapt to society's needs. Such businesses are the vehicles for the realization of our economic policy.

In the near future it will be necessary to introduce changes giving preference to the businesses that help in some way to preserve and strengthen external economic equilibrium, improve the economy's microstructure, use economically the factors of production, especially the ones that are imported, and expand our ability to export or improve our competitiveness, and do all this with the least foreign exchange and investment possible.

The principal task today is to improve the quality of managing our available resources and existing capital.

In perfecting our system of macroeconomic management, therefore, we must encourage the organized promotion of the individuals and collectives' initiative within the enterprise, and also the promotion and purposeful coordination of the enterprises' initiative within the national economy. The principal task of macroeconomic management is to enhance--to force if necessary, and mainly not to hamper--the unfolding of this initiative, and not to tolerate the permanent continuation or even the revival of economic activity of low efficiency. In the course of this the equilibrium, developmental and welfare interests of entire society must be asserted also through the business ventures of the production collectives. And finally, care must be taken to ensure that the unavoidable wild shoots of the business process do not weaken the socialist nature of our society. Thus our system of macroeconomic management must channel entrepreneurship in harmony with our strategic objectives, and it must make socialist businesses, or activities integrated with them, attractive to the economic subjects. A business-centered economic policy must emphatically apply to the entire national economy.

We must devote our primary attention to making entrepreneurial the management style of the enterprises owned by society, and to developing the organizational and mechanism-related conditions of socialist collective businesses. At the same time, of course, economic policy will allow socially useful, small private businesses as well.

We must regard as a unified system the factors that determine the organization and incentives of individuals, enterprise collectives, the enterprise and the national economy. The basic organizing principle of the organizations' scope of activity, autonomy and restrictions--in other words, of the substantive and formal questions concerning the organizations' independence--is the balance of action and responsibility, an economically sensible sharing of the risk and profit. A prerequisite for this is also the strengthening and expedient regulation of market relations. For market relations must provide a suitable information base for sound decisions, and they must distribute the income derived from economic activity among the cooperating commodity producers, commensurately with their performances. Otherwise society's set of values would become confused already in the system of "horizontal" relations, and this would rule out in advance any possibility of reconciling the welfare-consumer and entrepreneur-producer motivational planes, at the levels of the individual, the enterprise and society as well.

#### Personal Incentives

Entire macroeconomic management's business-centeredness influences in three ways the personal decisions and actions of an individual working for an enterprise organization:

First, macroeconomic management persuades the individual that it is in his interest to perform his work assignment conscientiously, accurately, and by using efficiently the means of production entrusted to him. Such activity can then also be the minimum requirement in exchange for which society guarantees the job security of the individual who is able to work.

Secondly, business-centered economic policy motivates the individual to develop and introduce, in his immediate job or trade, better and more perfect technical and organizational solutions than the existing ones, and to contribute thereby to the successes of his worker collective. Material recognition commensurate with the additional useful performances must be given to those who deserve it.

Finally, this policy offers the individual a realistic opportunity to become involved with the collective's affairs: to gain information about the worker collective's economic, developmental and business ideas, and to actively participate in their elaboration, realization and control.

Tangible criteria for measuring and evaluating the individual's performance can be formulated only at the given enterprise and workplace. The setting of wage differentials by jobs and the measuring of performances can be solved more or less without violating the workers' sense of justice. But we must realize that this is not a question of remuneration or wage policy that simply can be prescribed centrally. The reason why it cannot be so prescribed is that the enterprise has a dual incentive: on the one hand, as a "livelihood-providing collective," the enterprise strives to maximize personal incomes in the short term, and in this sense it has a "net-product incentive"; on the other hand, as a "business," the enterprise wants to maintain and strengthen its market position, and in this sense it has a profit incentive. An enterprise environment that compels a long-term approach can bridge the gap between the net-product incentive and the profit incentive, by giving the enterprise a long-term incentive to increase the net product per worker. So long as entire macroeconomic management does not stimulate and compel the enterprise to employ the long-term approach and to assume risks coolly, the "livelihood-providing collective" nature will be the dominant in the behavior of the enterprise, and pressure toward wage equalization will be typical of the enterprise's internal mechanisms. A pivotal requirement for the consistent assertion of the principle that remuneration must be commensurate with performance is to give the enterprise collectives a decisive voice in setting the ratios of personal earnings. However, the collectives' leaning toward wage equalization will change only if the enterprise gets an incentive to innovate and if at the same time it becomes cost-sensitive. Thus an increase of the enterprise's cost-sensitivity is the most important link at present also in this respect.

In the personal incomes that can be earned at the workplace it is expedient to reflect collective performance only to the extent that the individual is able to actually influence the collective's performance. Consideration should be given to asserting in the incomes of the immediate producers the performances of the smaller collectives within the enterprise. In the incomes of the workers employed in the departments that direct and coordinate the operation of the enterprise, the enterprise's profit over a period of several years could account for a proportion that would be the larger, the more influence these workers have on the annual profit. And finally, in addition to the annual profit, the multiyear increase of the enterprise's assets also could be an important factor in determining the incomes of the enterprise's senior management.



## Small Collectives' Key Role in the Enterprise's Internal Incentive System

Most workers are members of an enterprise collective whose activity--considering its conditions as well as effects--is too far-reaching and complicated to enable the individual worker to gain a complete overview of it, to actively contribute with his individual performance toward the success of the enterprise's activity, and to measure the extent of his own contribution to this success. As a result of all this, the small collectives formed within the enterprise are of increased importance. These collectives might be attached to individual plant units, they might be associations of workers servicing groups of machines or technological sections, or they might be all-round development or maintenance units. The principles according to which such collectives are organized can be elaborated on the basis of the local possibilities and tasks. For the production collectives within the enterprises it is expedient to introduce partial profit and loss accounting and limited autonomy based on collective incentives, but here again the forms and extent of autonomy are determined by the local possibilities and tasks. It would not be appropriate to set up national or sectoral models, especially not when collectives of this type are just spreading.

The objective is to increase the useful performance: rationalization of the consumption of materials and energy, loading the machinery to full capacity, utilization of regular working time and of regular work intensity, products of good quality, careful work organization, lively innovation activity, and a direct and perceptible relationship between incentives and useful performance. In a certain sense, the functioning of such collectives has also entrepreneurial characteristics because they might have a role in deciding what other tasks they undertake, over and above the average requirements. It would be desirable to perhaps let the collectives expend money as well as labor on such additional tasks; in other words, the collectives would also be assuming risk to some extent.

The entrepreneurial characteristics of the production collectives within the enterprises could be developed as follows:

The tasks of the small collectives could be formulated jointly with the enterprise's management and in the end could be laid down in some sort of agreement. It would be possible to specify in it, for example, the quality of the additional performance, the "price" that the enterprise will pay for it, the obligations of the enterprise and of the collective, the manner of accounting, the conditions of the collective's relative autonomy (the admission of members, the right to elect leaders), the ratios of the collective's own activity (for example, the processing of scrap, the production of parts, etc.) over and above the enterprise's plan; in other words, all the conditions that will ensure the collective's flexible integration into the entire enterprise's work rules and system of incentives.

The small collective would organize its own work, expand, and shed its surplus manpower on the basis of this agreement. The enterprise would pay to the collective the wages, and the profit-sharing that is a function of the collective performance, under the obligation to distribute them and to render an account.

When developing the operation of collectives within the enterprise, we must carefully evaluate the good and bad experience with the socialist brigade movement, the small businesses operating within enterprises, and abroad with the self-financing brigades, "quality circles" and similar attempts. Efforts will have to be made to let the small collectives within an enterprise compete with one another in an organized manner, through "competitive bidding" or by other methods. The objective is to integrate the interests of the collectives with those of the enterprise, and to find solutions that will permit organizing the largest possible proportion of the enterprise's work force into integrated collectives. In this way the increase of individual performances--especially of qualitative performances--and the individuals' active participation in streamlining the operation of the enterprise will become "better oiled" even during the statutory working hours, and the workers will be able to achieve their financial expectations within this framework. The possibilities of working after regular hours should not be limited even in the future, but the main objective is to increase the performance during the statutory working hours, and to ensure higher earnings commensurate with this increase. When modifying our regulators, we must see to it that these efforts do not encounter the obstacle of wage regulation. At the same time, however, the system must be given suitable safeguards to prevent the outflow of incomes not backed by useful performance.

#### Development of Industrial Democracy

The objective is to liberate the creative energies dormant in the human factor, so as to overcome our economic difficulties as soon as possible, and to accelerate society's further development. That is one side of the coin. The other side is to ensure an active and meaningful life for everyone who wants it. The two sides jointly presuppose the unfolding of democracy in our economic life. As the entrepreneurial nature of economic activity gains ground in every pore of the national economy, also economic democracy must be strengthened in the entire cross section of the economy. The task force attached special importance to the development of enterprise democracy. It will be best to organize under some form of self-management the enterprises that are small enough to enable most workers to gain an overview of the enterprises' operation and to evaluate it. The introduction of a system similar to the cooperatives' self-management seems feasible in the state sector as well.

The situation is different in the case of large enterprises with complicated structures. Their relations and problems are baffling to individual workers. Consequently, any form of self-management at such enterprises would become perfunctory. Here the relative autonomy of the smaller collectives (brigades, shops, etc.) could be supplemented by the integrating activity of the enterprise's work organization, if this activity is freed of formal elements and is in accord with its nature and objectives. The activity of the collectives and public organizations must include the safeguarding of the workers' rights as well as active participation in management. We must strive to develop forums and mechanisms that protect the welfare interests of the individuals and collectives primarily by actively contributing toward creating through work the prerequisites for welfare.

The "topic" of the continuous dialog between the workers and the small collectives on the one hand, and the enterprise on the other hand, is twofold: the



ensuring of the material, organizational and incentive conditions for work of ever-greater efficiency; and the just and economically substantiated distribution of incomes. Both of these topics have current as well as longer-term aspects. If this dialog is to be fruitful, the collective must be supplied with a large volume of accurate information, and with several possible versions for solving the individual tasks. Without this, the more or less "lay" collective with decision-making authority, or at least with the right to be consulted, could be placed at the mercy of the "professional apparatus." There are two ways of preventing such defenselessness. First, when the enterprise's management has an incentive to take the collective's opinion meaningfully into consideration. And secondly, when the enterprise's workers are able to exercise, in a suitably regulated manner, effective and strict control over the "professional apparatus." We must prepare the public organizations functioning within the enterprise--structurally, in their mentality, and in their methods of selecting their personnel--for the meaningful solution of this complicated task that requires a high level of professional knowledge and dedication.

Regardless of what form the workers' participation in the enterprise's internal management, in the selection of managers, and in aiding and controlling their work assumes, the usefulness of this participation will be determined by the maturity of the enterprise collective, by how well it is kept informed, and by properly developed cooperation between the workers and the enterprise's professional management. The prerequisites for this must be created through persistent work and purposeful gradualness. The viability and prospects of these democratic forms are based on our socialist conditions. The participation of the worker collectives (or of their representatives) and of the enterprise's public organizations in developing the enterprise's strategy and in aiding its implementation follows explicitly from society's ownership of the means of production.

#### Strengthening the Enterprises' Entrepreneurial Willingness

Inherent in the concept of socialist entrepreneurship is that it takes place in the uncertain environment of economic development, in which only limited foresight is possible. In choosing the combination of their resources, therefore, the economic units must take risks. Risks of this kind are unavoidable. The economy's system of organizations, and the regulators and incentives that ensure the operation of this system, must be developed so that the economic subjects will be both able and compelled to take risks.

The socialist enterprises must undertake their business ventures in a way that enables them to ensure--mostly from their business results--the livelihood of their workers, and even their ever-better livelihood, while their business ventures fit into the economy's field. Under no circumstances may a socialist enterprise let itself neglect even one of these considerations. It is not undertaking business ventures solely for its own account, and this limits its ability to assume risk. This limited assumption of risk harbors a twofold danger: if the state makes good the enterprise's losses, the enterprise will either lose its "sense of danger" in the market and enter into ill-considered ventures, or its entrepreneurial reflex will "die out." On the other hand, if the state shifts the entire risk onto the enterprise but is unable to systematically ensure for it the financial resources it needs to assume risks, the

enterprise--even though it might be interested in the business in principle--will not dare to begin even its first series of ventures because it would be unable to survive even a single unprofitable business deal. Furthermore, we must also realize that even if the enterprise has the material resources necessary for a venture but lacks "entrepreneurial reflexes"--because either the economic environment is dull or the personal prerequisites are absent--then it will not enter into the venture. And if the enterprises is nevertheless prodded into the venture, it could easily prove a disaster. From all this it follows that there are many conditions to be met, simultaneously and proportionately, if the enterprise is to become an entrepreneur. Namely:

--There must be an economic policy that takes into account, and provides room for, the enterprises' entrepreneurial willingness when formulating its equilibrium and growth objectives;

--There must be a system of regulators that provides strong incentives for entrepreneurs, and definite disincentives for refraining from business ventures. In sum, then, the system of regulators produces a situation in which the individual as "consumer" and the enterprise that exists as a "collective striving to provide livelihood" are forced to be creative, to take risks and to calculate, in order to prosper;

--Business ventures require money, partially in the form of the enterprise's internal resources and partially as bank credit obtainable under flexible conditions; it is likewise important that the enterprise have a flexible right of disposition over the financial resources available to it;

--A worker collective is necessary that wants to ensure a better livelihood for itself through business ventures and is capable of significant technical, production and commercial performances to this end;

--The enterprise must have a team of experts and managers who regard business ventures their profession, passion and interest, and who at the same time take seriously their responsibility toward the worker collective and the national economy as well;

--And last, but by no means least, a system of income distribution is necessary that achieves joint and proportional sharing of the business ventures' risk among the responsible officials, the enterprise, the financing bank, and the state that encourages business ventures.

The listed criteria characterize the quality of the given enterprise's vertical integration. Whether or not the economic organizations develop entrepreneurial tendencies depends on the realization of these criteria. But in itself the realization of these criteria is not enough for actual business ventures. For experience indicates that distorted market relations--for example, a buyer's or seller's market, or unforeseen hectic changes in the system of regulators (which usually are related to disorderly market relations)--hamper the unfolding of business ventures. The development of entrepreneurial behavior depends to a large extent also on the nature of the national economy's horizontal relations.

In the course of developing the enterprises into entrepreneurs, we must take the following realities into account:

--The domestic technologies and innovation chains are not equally strong everywhere, and they are broken in many places. This necessitates either forced import or, in the nature of forced import substitution, the development of less economical domestic production at all cost. In either case, a monopoly situation is installed in the "background" activity of the business ventures.

--The domestic market is lopsided. With time we will be able to remedy this through large-scale integration with the world market, but only if our economic efficiency and specific inputs come so close to what the world market demands that external pressure will not threaten to push our economy to the "periphery," as a result of which a one-sided economic dependence could develop. From all this it follows that within the foreseeable future we will be able to let many of the market mechanisms function only in a more or less artificial (simulated) manner. (But we must also realize that in such cases the danger exists that the "rigor" or compulsory nature of the mechanisms might become lax.)

--Our limited market is unable, in principle as well as in practice, to rate production activities by international standards. Therefore, we must build organically into our entire system of control and valuation (including also the system of regulators and the price system) the systematic analysis of activities and performances--at the national-economic, enterprise, production-efficiency and product levels--based on international comparisons. This is primarily the task of the enterprises, but the organs of macroeconomic management must likewise develop their research, development, design and information base that will perform the comparative analyses.

--The Hungarian economy's evolved enterprise structure, which up to now has survived every reform, reflects a one-sided horizontal arrangement. (Even the successive waves of centralization and decentralization were nothing more than the merging and splitting up of enterprises producing products more or less of the same kind!) As a result of the excessively horizontal enterprise structure and amidst the lopsided conditions of supply and demand, the technological and innovation chains are broken more often than necessary by conflicts of enterprise interests in conjunction with sales. (The requirement to eliminate such conflicts has produced a monster: the uneconomical and undersized forced vertical integration of enterprises, i.e., their efforts to achieve self-sufficiency, which usually affects investments and efficiency adversely.)

--Our enterprise organization is distorted in several dimensions. Small and medium-sized enterprises are lacking where the technological and market conditions require enterprises of this type. And most of our large enterprises --considering their capital, economic independence, innovation capacity, and the way they are circumscribed by the regulators--are not really large enterprises, although the international economic, technological and market environment would require them to behave like dynamic large enterprises.

Thus the domestic horizontal (interenterprise) economic relations are not exactly favorable for business ventures, and especially not for prime contracting that involves several enterprises. The collective that is innovative or

willing to assume the opprobrium of market expansion may easily find itself in trouble through no fault of its own, even if it both wants to and knows how to undertake business ventures, while the state provides a favorable economic environment for business ventures, the proportions in which the risk is shared are equitable, and also financial resources are available.

The conditions that depend on the enterprise can be ensured within the foreseeable future, albeit not easily: the internal mechanisms can be revised, the personnel conditions can be improved, efficient management can become widespread, quality can be controlled and innovation activity can unfold even under the present product mix and technological conditions. All this does not require any additional resources and effort of which most Hungarian enterprises are not, or at least could not be made, capable. The shortage of liquid assets could be remedied partially by perfecting the banks' credit policy and their operating mechanisms, and partially by the fact that the technical conditions of a certain proportion of our enterprises are rather flexible, and their stock of productive assets and their workers' skills likewise are not tied rigidly to the production of specific products. The technical conditions for flexible adjustment exist even at some of our largest enterprises.

Macroeconomic management must unquestionably be more consistent in shaping the economic environment for business ventures. The conditions for this, too, are maturing. The two greatest bottlenecks nonetheless are the occasionally distorted production and marketing background, and the shortage of reserve capital that is typical of the entire economy. These are real obstacles! Therefore it would not be realistic to expect that we can develop the enterprises' more active entrepreneurial willingness automatically, by decree, persuasion or even by modifying the regulators. Sober comprehension guides us toward consistently implemented gradualism.

The task force's investigations and debates raised a number of ideas also in conjunction with the direction of perfecting the system of economic and legal regulation, and the organizational system. To illustrate the desirable direction of the changes, it will be worthwhile to mention some of these ideas also here.

--Although fully aware that high standards of contracting and cooperation cannot be adopted on command, we nevertheless must find a solution for the more consistent legal protection of honest enterprise behavior, and the Hungarian Chamber of Commerce should spread by means of "social pressure" the norms of a reliable partner's behavior. And most of all we must strive to reduce the intensity of the gap through the instruments of income regulation, price policy, and monetary policy.

--We must further broaden the assortment of the forms of long-term cooperation between enterprises and encourage also by means of financial and political instruments the establishment of lasting and cooperational relations at the points where the innovation and technological chain demands this the most.

--The enterprise should be given more encouragement and incentives than at present to combine in associations and integrations--voluntarily and on



the basis of mutual advantages--all those functions that they are better able to perform jointly than separately. (Here we have in mind particularly the development of R & D capacity, certain investment-intensive technological phases that can be operated economically only on a large scale, foreign trade, inventories, etc.)

--In the opinion of the task force, measures affecting the organizational system will unquestionably be of outstanding importance in the future. But regardless of how important the organization of economic activity is, the organization is able to provide only the framework within which carefully selected, properly oriented, motivated and trained people will be able to work efficiently. For disoriented, mismotivated, poorly chosen and inadequately trained people can operate even theoretically perfect organizations only with low efficiency. The organization is always a dependent variable of the economy: whether or not a given organizational form will prove suitable is determined to a large extent by a multitude of specific technological, market and human factors. And we must reckon also with the fact that the organizational system's modification, even if successfully implemented, is a painful step that affects, sidetracks and perhaps even breaks livelihoods and careers.

--We must gradually develop the principles, norms and rules of the stepwise sharing of risk, and also the related mechanisms and institutions for the distribution and redistribution of income. Nobody, not even the richest capitalist entrepreneur, will assume significant risk without an insurance system for sharing the risk.

--Suitably flexible mechanisms must be found to resolve the contradiction that the macroeconomic regulation of the enterprises' management is normative by its nature, while the normal operating and developmental conditions of the entrepreneurial production collectives in the various specialized fields qualitatively differ from one another. In the final outcome, the bridging of the contradiction between the normative central regulation and special operating and developmental conditions can be expected only from the liquidation of the relative paucity of capital, but this lies in the more distant future. Looser forms of financing, and the financial institutions' increased active participation in business ventures could alleviate these problems in the foreseeable future.

In developing the enterprises' entrepreneurial willingness, it is also necessary to employ incentives more effectively and to interpret them more modernly. An incentive, according to our present concepts, is extra remuneration for additional performance. This is a one-sided interpretation, because motivation cannot act only in the positive direction. In this way the incentive to give additional performance could lose its effectiveness unless it is made unambiguously clear, to the enterprises and individuals as well, that long term it is not possible to live on inadequate performance. The compulsion to perform must include also the threat of going broke. Naturally, performances may be evaluated only on the basis of the actual results, and not of the man-hours worked or the good intentions. And the efficiency--assuming suitable price and income regulation--can be expressed in the enterprise profit (or loss), respectively in personal incomes.



## Economic Policy and Entrepreneurship

Our task force felt that a thorough investigation of the system of horizontal macroeconomic relations would have been outside its frame of reference, and therefore we will not dwell in detail on the desirable directions of developing the internal division of labor and authority between the party and state organs, the organs of state power and the public administration organs, the functional and the branch organs, and between the central and the local organs. In the course of its investigations, however, the task force did encounter these problems in conjunction with a number of issues, and it did form an opinion on them.

--It would be expedient to free the party's central organs of decisions regarding the details of economic policy, so that they may concentrate their energy on the following: the thorough and timely preparation and adoption of specific economic-strategy decisions of great importance that determine overall policy; the decisive tactical "course correction" decisions of national importance; the organization of economic policy's public control, and direction of its continuous implementation. The party's role in meaningful macroeconomic management must be increased, in a way such that managing activity at this high level will not lead to too detailed work or a dissipation of effort, but will become more profound instead.

--It is a fundamental task of the socialist state to elaborate--on the basis of the party's economic-policy guidelines and an extensive social dialog, and taking far-reachingly into consideration the enterprises' concepts--a suitably orienting strategy of economic policy, and to provide the necessary means--including material resources as well as authority and regulations--with which the activity of the business organizations can be steered in the direction of this strategy. In addition, the state must also be capable of intervening in day-to-day operations, to avert or anticipate serious danger. However, such interventions must be reserved for actual emergencies, so much so that economic and legal safeguards must be built into our macroeconomic management system to avoid unwarranted interventions of this type.

The socialist state's economic policy is able to support the enterprises' business ventures primarily when also the state's economic strategy--and the long-range and medium-range plans that "mold" this strategy--is bold and entrepreneurial.

Thus the plan does not simply monitor the maintenance of equilibrium and the desirable development of the macroeconomic indicators, but it also projects the feasible structural, developmental and foreign-market changes that can be forecast realistically at the state level and provide the foundation for faster growth of the national economy's efficiency. Selective development, orientation on the external economy, the energy base, the supplier industries, the utilization of by-products and scrap, etc.--all these are economic policy's components of an entrepreneurial nature. For these important decisions are adopted on the basis of technological, production and market forecasts, after comparing several versions and allowing them to compete. By adopting these decisions, the state to a certain extent forces the reproduction process out of its old groove. The state assumes a risk regarding the success of realization

or the degree of its effectiveness, in the interest of the faster growth of the national economy's efficiency and of strengthening its external economic position, so as to make also the faster improvement of welfare realistically possible.

Consideration of not the economic efficiency in a narrower sense, but of the social efficiency determines the decisions of outstanding importance regarding the development of education, health care and the infrastructure. If here we speak of entrepreneurship in the same sense as in the case of economic tasks in a narrower sense, then also in this area we cannot dispense with an innovative spirit, with striving for more and the better, and with the healthy competition of individuals and collectives in seeking more efficient solutions.

--We regard as useful the shaded interpretation of the state's economic functions. Thus it is desirable to distinguish more consistently than at present the state's executive power (public authority) from its activity as owner and as the economy's regulator. It is especially important to limit the authority of the executive apparatus, to curb legislation that defines in too great detail the framework of economic activity, and to eliminate frequent and unwarranted interference in enterprise management. Parallel with these measures, on the other hand, it is necessary to raise the quality, effectiveness and authority of administrative work that defines the rules of economic activity, and of macroeconomic managing work. Within this the relative weight of the institutions of state power must be increased, and the exercise--direct or indirect, in accordance with what the competent state organs decide--of the state's functions as owner must be refined. All these clarifications and modifications of the division of authority must jointly lead to strengthening the socialist state's meaningful activity and influence in managing the processes of the national economy, while enabling the socialist state to truly assert through its macroeconomic managing activity the real interests of entire society.

Perfection of exercising the state's functions as owner, and additional forms of organization and operation will not undermine socialist property relations but will strengthen them. In terms of its size and relative weight, state ownership will remain the most extensive form of ownership. The role of the cooperative form of socialist ownership will probably increase with the rapid growth of the areas of economic activity that require businesses of small and medium size. The share of private ownership, in spite of a slight increase of its role, will remain small also in the future.

In the likeness of its economic-policy objectives and consistently with them, the socialist state develops its system of regulation (which in itself must be consistent), modifies the organizational structure and participates--in a differentiated manner according to the nature of the organizations--in the selection of experts for the key posts in the national economy.

The state--in harmony with its aforementioned entrepreneurship-encouraging role--must create an economic environment that stimulates and rewards the enterprise sphere's entrepreneurial willingness and overcomes its unwillingness. The entrepreneurship-generating or -suppressing nature of this environment is determined by the entire environment in its interrelations. This system's most important element, the one that determines everything else, is the producer

price system. It measures the social efficiency of the production organizations' work and marketing, which makes it the most important source of short-term information and a means of influencing decisions. Since the Hungarian economy is wide open to the world market, it is sound for both theoretical and practical considerations that we make the ratios of the domestic producer prices strongly dependent on the world market's value judgment. The practical realization of this dependence, however, awaits the solution of numerous problems that are still open. But the price system alone is not yet capable of performing the complicated managing tasks satisfactorily. If we succeed in suitably linking the domestic prices to the foreign-market prices, this in itself will not mean a stimulating environment, without exchange rates orienting in the right direction. But not even a purposefully developed and mutually coordinated price system and system of exchange rates are enough; it is also necessary that their effects not be neutralized by income regulation (taxes, duties, interest rates, wage regulation, the norms for allocations to the enterprise funds, etc.) and by the financial and credit system. Even if every regulator points in the same direction, entrepreneurship might be strangled by administrative obstacles to the enterprise's moves in the market. Thus the system of macroeconomic management is a system in the true sense of the word: every one of its elements must point consistently in the same direction. If macroeconomic management does not meet this requirement, then the effectiveness of its operation is determined by the throughput of its narrowest bottleneck.

It is not our purpose to describe, and especially not to comment on, the ideas that have been advanced, and perhaps even elaborated, regarding the direction in which the individual elements of the system of regulation ought to be modified. The less so because the same objective of regulation can be approximated with different combinations of various regulator elements; furthermore, because the combinations of regulators will necessarily change with the national economic tasks, and we must be ready for such changes in the future as well. And it is also unlikely that the system of regulation will require radical transformation so far as its basic principles are concerned. Here, we believe, it is necessary to strongly emphasize something that points beyond the techniques, and even the tactics, of economic regulation: namely the fact that in the final outcome the system of regulators must convey to the enterprise collectives society's collectively formulated will and preferences. In this sense the system of regulation not only influences the individual investment and business decisions, but it also forms opinions, the way of thinking, and economic reflexes.

If a collective socialist entrepreneurial nature is to become irreversibly dominant in the enterprises' style of management, our system of regulation has to satisfy the following criteria:

--The system of regulation must provide room for strategic thinking, planning and action. This does not mean frozen prices, exchange rates, interest rates, tax rates, etc., but long-term reliability. In other words, the enterprise must know for certain how the regulators will react to foreign and domestic cyclic changes. The changes in the criteria of the constantly changing world must necessarily be reflected in the movement of the regulators, otherwise the regulators will become divorced from reality. The enterprises must perceive with certainty the national-economic priorities



from the constellation of the regulators, in order to reckon with the income effects that can be expected from an investment and business policy planned and implemented knowing these priorities.

--Enterprise activity must not be overregulated in any respect. As a rule, overregulation is not a conscious effort on the part of macroeconomic management, rather mostly a consequence of the inconsistency of the system of regulation. Specifically, the individual regulator elements functioning under the auspices of different central agencies are not necessarily in harmony, for the "separate interests" of these central agencies, and their ability to assert their interests, strongly influence the process of coordination among the central agencies. The forced action to control and direct into proper channels the "stray currents" resulting from the effects of the mutually conflicting regulator elements generates new regulation, which only increases further the system's "fragmentariness." The most effective medicine against the danger of overregulation is to ensure the closest possible internal harmony of our plans and of the system of regulation.

--Market forces must be perceptible to the enterprise, in two projections: the enterprise's income must be strongly influenced by the cost level in the case of less innovation-sensitive products, and by the price level in the case of innovation-intensive products. Since the conditions of competition in the domestic market can be ensured not at all or only sketchily for a significant proportion of domestic products, and because the development of import competition realistically cannot be expected for a long time, macroeconomic management must use more purposeful and better substantiated methods to direct the process by which society's needs become effective demand. The assertion of the foreign market's price ratios in the ratios of the domestic producer prices, where applicable, can be of help in this respect. A separate problem to be solved, as we have already indicated, is the development of cost-sensitivity. This means the more consistent regulation of the real and income processes than at present, and a narrowing of the possibility to pass on costs. And finally, it presupposes more effective market regulation and supervision than at present, so long as the internal market mechanisms are inadequate and very lopsided.

--Accepting the enterprises' dual, net-product and profit, incentive as an objectively existing phenomenon, we must strengthen the incentive in both planes. One way of doing this could be the relaxation of the central regulations on the enterprises' use of value added. To this end it will be expedient to ease the rigid link between profit and wage increases, and to gradually relax the rules governing the allocation of the depreciation retained by the enterprise, and of the gross profit after taxes, to mandatory funds.

The socialist state also must have financial resources with which to build the infrastructure that is necessary for the development of industry and agriculture, and to participate in the financing of business ventures that are necessary from the viewpoint of national economic strategy and seem promising.

In the course of the debates it has been suggested that the main source of these financial resources could be the return on the state's investments, the owner's share from the gross profit of the enterprises. And specifically because this owner's share differs in its nature from tax revenue, it should be handled separately from the traditional state budget, providing for it a circulation geared to the peculiarities of this revenue. The source of financing created in this manner could be the financial basis of the state's direct participation in business ventures, and of state guaranties. And finally, the state would be able to issue bonds, and to borrow from the banking network. All these sources would finance the state's investments in the productive sphere, or more exactly the capital allocations and the founding of enterprises by the state. (The state would keep its unspent resources on deposit with the banks and would earn regular interest on them.)

The state's direct capital share of gross productive investment cannot be large percentagewise. The principal directions of its use are as follows: allocations of additional capital for the R & D activity of the enterprises that play a key role in the strategic target programs, and especially for the investment outlays of the extractive and primary industries; and the supply of a part of the capital for important foreign business ventures. From this source it would be necessary to finance also the investments in the productive installations that have very long payoff periods but are essential to the normal functioning of the economy (for example, coal mines, power plants, prospecting for hydrocarbons, the construction of various pipelines, etc.). Infrastructural investments in a narrower sense would have to be financed from the state budget, as before.

We must not overlook the fact that the state, by its own special methods (summit meetings, diplomatic relations, etc.), is able to conduct also a peculiar type of "marketing" and "salesmanship." This opportunity must be utilized, and therefore such activity of the state must be expanded and linked organically to the Hungarian business system.

National economic planning plays a central role in the state's business-generating and -supporting activity. National economic planning naturally includes the following: the elaboration and continuous updating of strategic objectives, in cooperation with the enterprises or their federations; the supply of macroeconomic information for the enterprises' investment and business strategies; the preliminary harmonization, in general outlines, of the activities of various, mutually cooperating areas of the national economy (including the initiation of the preliminary harmonization of the interdependent largest enterprises' investment and business policies, and the role of a "catalyst" in this); the elaboration of principles for the domestic market's regulation; and the coordination of planning with the other socialist countries.

Planning at the enterprise and macroeconomic levels must be regarded as a unified and coordinated process. This presupposes a cooperating partnership between the enterprises or their federations on the one hand, and the planning organ on the other, and continuous search for the common interest. Planning of this type does not tolerate mandatory planning directives and command planning. At the same time it is based more directly than heretofore on the enterprises' information, interests and aspirations. The result is a national



economic plan that is better able to mobilize resources. The enterprises' strategic plans can serve as the basis of cooperation in planning.

Essentially the role of the National Planning Office in this concept of planning that is offered for consideration, and which is based on a continuous and close working relationship between the enterprises and the state, would not be that of a public authority.

In the course of the debates it has been proposed that the progress achieved by a given time in gradually reconciling the enterprise and the national-economic views on what the plan should contain might be laid down in an agreement between the given enterprise (or interest group or federation) and the planning organ. This agreement would include the assumption of an obligation to produce a specified amount of a product only if an international agreement or national-defense or other considerations required an absolute guaranty. The content and form of the agreements between the enterprises and the planning organs have yet to be elaborated, and also the question must be carefully weighed as to what types of enterprises could be included in such cooperation. The elaboration of this concept could be enhanced by concluding "experimental" agreements with a limited number of enterprises that volunteer to do so.

#### Coordination of Social Welfare Policy and Performances

Better social welfare, and socialist entrepreneurship as the general style of management are two inseparable sides of the same phenomenon. Efficiency cannot be increased without entrepreneurship, and neither enterprise nor personal incomes can rise without increased efficiency. The stress between the national economy's current income-generating capacity and personal consumption cannot be relieved without jeopardizing welfare, unless we increase efficiency through our businesses. One of the most important tasks of economic policy, therefore, is to create conditions that will make perceptible, to individuals as well as enterprise collectives, the close relationship between their useful performances and the incomes they earn thereby. Here again, we can expect this effect only from an organic system of regulators. This requires first of all that enterprise income be commensurate with performance, because the bulk of personal nominal incomes stems from enterprise income and to a certain extent --as we have explained earlier--should depend on the profitability of the smaller or larger economic units.

The consumer prices must not distort unnecessarily and harmfully the ratios of nominal incomes based on the principle of performance. But because our present wage system provides very digressive additional remuneration for additional performance, and in addition there are many very serious distortions in our present consumer price system (for example, it penalizes disproportionately home builders, the purchasers of durable consumer goods, etc.), a more consistent application than now of the performance principle in the development of real incomes--in a manner that is already perceptible to the individual and can be calculated by him--can only be the result of a lengthy development process. The task force recommends the elaboration of a detailed strategy for this, including stages of implementation clearly defined in advance.

The final objective obviously cannot be the attainment of some ideal state. The development of real earnings for different performances is always influenced by many factors that are foreign to the ideal performance model: for example, by an imbalance of supply and demand in the market for consumer goods or the "labor market," induced inflation, etc. A realistic objective of perfecting the system can only be the development of controllable and correctable mechanisms. The individuals' opinions and sets of values are determined not by whether or not the distribution relations are ideal, but by the direction of the system's shifts.

Our entire economic policy could collapse, for example, if in the "first economy" the income ratios were to differ strikingly from the performance ratios and additional performances were to remain nonremunerable, while the "one-and-half" or "second" economies were able to find ways of even overpaying performances. A separate problem is that illegal incomes in the so-called "third" economy make the accumulation of substantial wealth possible which already can be invested as capital, or as money that produces money. But turning this trend around could lend wings to the diligence and creativity of the mass of workers who want to prosper in the "first economy" and account for the overwhelming majority of the working population. It must become a consistently implemented basic principle of our income policy that we must first of all prevent the formation of incomes not backed by performance, instead of trying to remedy the undesirable income processes by skimming, because in this case we would hamper the formation also of additional incomes commensurate with performance.

Society's welfare is determined not only by the workers' real income, but also by the living conditions of those members of society who are unable to work for some reason or other, and of those whose incomes are not enough to cover their realistic essential needs even if they work to the very best of their knowledge and ability. In the first category belong children of preschool and school age (who are still inactive), the elderly (already inactive), and persons who temporarily are unable to work (the sick, women on maternity leave, etc.). Young people starting out in life account for the bulk of the category with inadequate incomes. Socialist society's social policy is a system of supplementary mechanisms and institutions that uses society's resources centralized for this purpose, to at least perceptibly ease the uneven social burdens of individuals and families and thereby to help assert in personal consumption the formation of incomes independently of performance. Effective is the social policy that fulfills this task and in addition also asserts (indirectly) in the socially motivated incomes the performance principles, where this is necessary and possible (sick pay, pensions).

If we want to remain realistic, we must recognize the fact that even in the long run our society will not be rich and productive enough to resolve through social policy the stresses resulting from uneven family burdens. However, we will be able to alleviate these stresses and make them tolerable.

In terms of their social and financial impacts, social policy's three most important target areas are as follows: the housing problem of the younger generation starting out in life, which is essentially a "paucity of wealth," because the young people have an essential need for a consumer good of such

relatively high value that they have been unable to save up for it during their individual lives; the low per capita income of large families, which disturbs distribution according to performance on the one hand, and jeopardizes the development of the children growing up in such families on the other; and the negative effect of price increases on the real value of pensions, especially of small pensions. These last two target areas of social policy are suffering essentially from a paucity of income. Neither the paucity of wealth nor the paucity of income can be regarded as isolated problems of the strata in question, for they affect at least a third of society directly, and almost entire society indirectly.

The national economy's restructuring that switching to the intensive path makes inevitable, the parallel differentiation of enterprise incomes and, as a concomitant phenomenon of both, a significant labor mobility are adding to the three basic social problems a fourth one: personal incomes will undergo perceptible differentiation, due in part to the more consistent assertion of the performance principle, and in part to the necessarily occurring changes of professions and employment. All this will foreseeably place a heavy burden on social policy's budget. Therefore it is particularly important that, in devising the strategy of these changes, we treat the plan for the necessary further development of social policy's mechanisms and institutions as an organic part of perfecting the system of macroeconomic management, and that we take into consideration the effects of the economy-regulating measures' effects on personal incomes with just as much foresight as the enterprise or external economic effects.

The macroeconomic management system has been created on the basis of the economic reform introduced in 1968. We will perfect this system not in a medium that is independent of time and space, but in the medium of the national economy that abounds in difficult and sometimes even dramatic changes. And we will do so not just with anyone, but with people many of whom have become accustomed over decades to lax performance requirements, to most of whom the concept of "performance" means primarily quantitative results, who have not yet become accustomed to assuming risk and responsibility, and--last but not least--who are facing the future with concern, fear for the modest prosperity they have attained during several decades and value very highly their secure livelihood. This simultaneously urges decisive steps as well as greater deliberateness. The difficult economic situation and the anxiety-filled social environment must not deter us from actions, without which we would not have much hope of improving our own lot within the foreseeable future. However, we must be increasingly circumspect in the comprehensive preparation of the measures.

For example, we must carefully calculate the interrelations and interactions between the changes that are to take place in the circumstances of enterprise management on the one hand, and prices on the other, taking into consideration that demand exceeds supply even today in certain basic sectors of the market, particularly in the market of products suitable for further processing, due mostly to underdeveloped supplier industries, the shortcomings in contractual relations, and limited importing possibilities. Parallel with the bottlenecks, there are also idle capacities, some of which could be converted to the production of goods that are in short supply. If these capacities remain idle, then

not only will they not be contributing toward reducing the inflationary pressure generated by the excess demand, but they themselves will become a price-increasing factor by adding to the costs. Construction may be regarded as a similar market bottleneck, but also in the sphere of consumer goods we have many major or minor shortage phenomena that in a given critical situation could become "inflationary epicenters." This would be harmful in every respect: first, it would hamper the enterprise sphere in changing over to an actual increase of performance; secondly, it would open wide room for speculation in the sphere of consumption; and finally, it would discredit the cause of reform before the very popular masses without whose trust the system of macro-economic management cannot be perfected. We regard this discrediting of the cause of reform as the greatest danger.

To avoid disturbances during changeover, we will have to purposefully employ the instrument of corrective interventions. In the course of this, however, our process regulators will have to be modified consistently, in a systems approach and in a predetermined sequence, so that our economy will move in the direction of the set strategic objective. This will give both the enterprises and the workers greater security than continuous hasty modifications of the regulators would, which might repeatedly blunder into the maze of overregulation.

Adjustment to the constantly changing world is the test of every living organism's viability. Our socialist society can prove its viability and ability to develop, by becoming stronger through continuous regeneration. This we must prepare and implement very circumspectly, with careful work, comprehensively and in a systems approach. In the course of this, however, we must strictly adhere to the economic and political realities of our society's development, and also to the realistic requirements of the next step.

1014

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## REPORTER PROBES LIMITS OF ECONOMIC REFORM

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 19 Apr 84 p 12

[Article by Viktor Meier: "Eastern Trade Obligations as Obstacle to Further Liberalization"]

[Text] Budapest, April--Hungary's attempts to encourage also private initiative as part of the economic reform has already run into its test case: A private individual in Budapest put 32 million Forint (just about DM2 million) on the table and began to build a private hotel with about 40 rooms in a central location and with excellent furnishings. The average prices which he wants to ask for will close a gap in the market in the Budapest hotel situation. Now, how can the socialist state permit private funds in this order of magnitude to appear on the market without anybody really knowing where that money is coming from? All echelons of government and party are racking their brains over this question. The "capitalist" who quite meaningfully wants to name his hotel "Viktoria," declared that a total of ten persons had pooled their money for this investment; some of it supposedly came from Hungarians living abroad. He maintained that he did not violate any laws and that his actions are in agreement with the publicly announced effort to pump idle private capital--which obviously does exist in Hungary--into the economic cycle.

The "Viktoria" case is not the only dilemma facing Hungarian reform policy. Over the past 2 years, the reform quickly picked up speed and the economic forces that were released have developed their own dynamics. The most spectacular field here is private initiative, not so much in the crafts but rather in services and also in retail trade. In the process, the legal forms of private economic activity have been properly exploded so that today even the experts are having a hard time finding their way around. There are private work associations within the enterprises in which blue-collar workers and white-collar employees get together in order to turn out certain products with the enterprise's machines on a private basis; in most cases those involved can double or triple their monthly pay (in Hungary an average of 5,000 Forint). Then there are private work associations outside the enterprises; this is where private craftsmen--of whom everybody may employ at most eight workers--can also get together to form real small factories. Next there is a possibility to lease a small commercial or production enterprise from a larger outfit. Presently, some people are trying to figure out whether this possibility might not be used in order to turn smaller government enterprises,



which are unprofitable and which would have to be closed down, over to profitable private management. People can still be active as private craftsmen; their number is also going up constantly. In the service sector it is entirely possible to run a private business in the most varied forms on an ownership basis, on a lease basis, or also through a partnership of several owners.

Much is being said and written about this private initiative both in Hungary and abroad; but, with the exception of agriculture, in which the private sector is likewise spreading out, private initiative according to official statistics only contributes 2-3 percent to the national product. Marxist statistics of course are inclined to grade especially the tertiary sector as being rather little productive. Another figure, which is naturally based on estimates, gives us a better insight: If we add everything together, including agriculture, then Hungary at this time would seem to have about 400,000 workers in private industry. The country has around 10 million inhabitants. The new tax law, which took effect at the start of the year, creates not only more stable but also more favorable conditions for the private tradesman. Of course, the latter complains about the high social contributions (40 percent of the profits).

#### Return of Stock Market Share?

The Party's Central Committee--which is working on the continuation of the economic reform at this time--must of course view the economy as a whole. The big enterprises and their management constitute the big problem. The Central Committee--it was heard prior to its meeting--will decide over the next 2-3 years to reduce the size of the ministries and to grant more freedom to the enterprises, last but not least in the investment sector. This means that enterprises will be able to participate in other enterprises or that enterprises will be able to band together to form "groups" which would equalize the risk and which would manage investment funds. The discussions on the legal forms within which these extremely capitalist processes are supposed to take place are quite interesting. Participations can be built up in the form of loans or obligations--but what about the co-determination right? This is where Hungarian economic experts can already see the stock market share rising up on the horizon. A stock company exists already: The "Innovation Fund," which the National Bank together with another bank and the Association of Private Crafts founded to discover and use new techniques.

Many party officials are worried by such developments. The argument according to which the legal instruments of the free-enterprise economy were not created as "symbols of control"--but rather because they sprang from practical needs--cuts little ice. There are limitations, it is said. A socialist country could never approve the idea of not asking about the origin of private capital, of having a manager become an independent power in the economy, or of having the state even withdraw from enterprise management, as was proposed by economist Professor Liszke. The principle "that which works productively should be integrated"--with which the advocates of a more far-reaching reform policy operate--is said to be unacceptable.

Such restrictive views among other things come from the labor union organization; but it is said that high-ranking political leaders, such as Politburo member Karol Nemeth, are not at all happy with the "reform fever" which is spreading here and there. Otherwise of course it would be that nobody would have any great interest in private investments, that only very few people would try to get management positions for which the salary is not excessively high with 15,000-20,000 Forint per month, and that the greater freedoms, which one wishes to give to the enterprises, would remain ineffective. That is precisely when able workers and engineers would begin to pursue the now existing possibilities of private activities, something that has already been criticized in the Industry Ministry.

Of course, there is one argument which is now often mentioned in Hungary as an objective obstacle to any further reform development. Hungary, it is argued, could not afford to allow its enterprises--be they government or private--to produce freely and to develop freely. This might possibly satisfy domestic Hungarian needs on the part of the population to a great extent but the country, it is maintained, has its foreign obligations, moreover, not only in the West, for example, the repayment of debts, but just as much or even more so in the East. For political reasons Hungary cannot simply reduce its trade with the East which still accounts for about 50 percent of its foreign trade volume; such an attempt would entangle the country in serious problems. The East's claims against Hungary--both regarding the quantity and the quality of its products--if anything seem to be going up; high-quality Hungarian products are being demanded in return for Soviet shipments of petroleum or natural gas. In its performance balance in the convertible currency sector Hungary is, to be sure, presently achieving an annual surplus of \$500-600 million with some degree of constancy but that is not even enough for debt servicing. This year, obligations amounting to around \$1.4 billion will fall due.

#### Stagnation for the Past 3 Years

Hungary is compelled to turn out export products. It is currently negotiating in Brussels on a general, overall treaty with the EC; as a member of GATT, Hungary feels that it should not have to accept any quantitative restrictions on its exports. This viewpoint is described as somewhat unrealistic and as being rather little helpful in the negotiations. The most important thing--in the opinion of a leading member of the economic administration--however is to overcome the growth stagnation which has now lasted already 3 years and which this year again will bring about a 3 percent drop in real wages. But one cannot initiate any artificial revival because otherwise there would be performance failures and possibly inflation. It is only now being recognized that one is basically not very free in one's economic development design and that there is little one can do about that.

5058

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## MINISTER WEIGHS POTENTIAL OF FOOD PRODUCING SECTOR

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[Article by Jeno Vancsa, Minister of Agriculture and Food Industry: "What Is the Food Economy Capable of Doing?"]

[Text] In many respects the world economic crisis that began to make itself felt in the first half of the early 1970's has also created new circumstances for our food economy, including our agriculture and food industry. Determined to adjust to these changed conditions, in 1978 the Central Committee of our party charted a new course for our economic development. By following this course we have succeeded in attaining our main economic policy goals. In accordance with its importance and position, the food economy has contributed both to the preservation of our solvency and to the maintenance of our standard of living. Most of the tasks that were put before the food economy by our party and government have been solved.

### Along the New Course of Development

Just as it did during the fourth and fifth five-year plan periods, agricultural production has continued to show dynamic development since 1978, growing at an average annual rate of 3 percent. In other words, while in other areas of our country's economy we have been forced to follow a course of more moderate growth, in agriculture we have continued to be able to count on strong production increases. This we owe mainly to our ability to utilize our most important natural treasures, i.e. our arable land and our favorable climatic conditions in general, by using relatively few import products.

We have, however, not been able to put a complete end to the year-by-year fluctuation of production. Last year's serious drought has set back plant production (by 9 percent compared with last year). It is also a fact, however, that the technical, professional and organizational preparedness of our agriculture has considerably lessened the effects of this natural disaster. Otherwise, contrary to our plans for the past 5 years, our plant production--which being the source of fodder is also the basis of our animal

husbandry--has grown slower than had been projected. On the other hand, the output of our animal husbandry has exceeded the projected level.

Since 1978, the only aspect of the tasks facing our hundreds of thousands of producers which has not changed is the continued need for increasing the rate of production development. While continuing to stress the need to increase the volume of our production, however, we have also placed an unprecedented emphasis on savings and on improving our international competitiveness. Increasing attention has been given, especially in the area of plant production, to plants and animal products the production of which, as in the case of cereals, has proven to be more competitive.

Our country has planned to produce 15 million tons of cereals by 1985. By 1982, we already reached 14.8 million tons of this goal. By taking this into account, we expect to attain the 15 million ton cereal yield already this year. The average yield per hectare of our chief cereal, wheat has gotten significantly closer to that of the leading producers of the world, and our corn yields have put us among the top growers. The increase in the production of these two plants has also had a favorable effect on our agricultural exports. In expanding our export bases we have made significant changes in the production of oil-yielding plants. Compared with 1978, their production volume in the past few years has almost doubled.

Compared with the past 5 years, by 1983 the area listed as land under cultivation by our gardening branches--i.e. by grape, fruit and vegetable production--has declined by exactly 100,000 hectares. In spite of this, the production of goods in the gardening branches has increased by 5 percent, and the produced value--computed at constant prices--has risen by 10 percent.

In animal husbandry the greatest increase has been in meat production. In the area of slaughter animal production we had planned to reach 2,242,000 tons by 1985. By producing 2,300,000 tons our agriculture already surpassed this projection last year. There have also been significant gains made in milk production. While in 1978 our annual milk production per cow was still barely over 3,000 liters, last year we already passed the 4,000 liter mark. Before, a 1,000 liter per cow growth in milk production used to require more than a decade and a half to achieve; this time it has only taken us 5 years.

Our increased agricultural production has also enabled us to expand the production of our food industry. Our aim to earn greater returns from sales on the international markets with the help of processing has been successfully attained. With its workforce declining, our food industry has increased its production by more than 15 percent during the past 5 years. There has been an es-



pecially significant increase in the purchasing and processing activities of our meat and plant-oil production. By the end of the 1970's, our food industry was producing over 4,500 different products. One indication of our modernized product structure and expanded selection is that last year our state food industry alone stopped the production of 40 to 50 products, replacing the obsolete items with an expanded selection of 100 to 150 new products.

Our agricultural and food industry production has become a sure source of our food supplies which is important if we are to realize our living standard policy goals. We have had greater quantities of biologically more valuable, more flavorful and more vitamin-rich foods reaching our tables. While our intake of high carbohydrate-content foods has declined, our consumption of milk, meat, vegetables and fruits has increased. In the case of several products--such as slaughtered poultry, apples, etc.--supply already exceeds demand. The volume of domestic food consumption has even reached the level of countries that are more developed than we are, and in the area of quality and selection we are gradually closing up to the economically developed countries.

At the end of the 1970's, as our economy first entered on its new course of development, our government anticipated a 6 to 7 percent increase in our agricultural exports. Exceeding these projections during the 4 years following 1978, our export of agricultural and food industry products increased by more than 10 percent (in our non-ruble trade by more than 15 percent). Even taking into account the drought year of 1983, our average rate of growth during the past 5 years has been over 9 percent.

Between 1978 and 1982, the total exports of our national economy rose by 32, and our food economy exports by 54 percent. While in 1978 our agricultural and food industry enterprises had provided only little over one-fifth of our domestic exports, last year their share rose to more than one-fourth. Within our agricultural exports, by 1982 the ratio of non-ruble exports reached 37 percent.

The big task which entering on a new course of development has been expected to accomplish during the past 5 years is to improve the efficiency of management while continuing to increase the volume of production. Our various branches have begun to focus more than ever before on increasing their income producing capacities, improving their net production value ratios and making a greater contribution than before to the national income. As a result of an improvement in the efficiency in our system of guidance, and owing to various actions aimed at utilizing the reserves of management there have been significant changes in this area. For the first time in decades agriculture has increased its net production value at a faster rate than its gross production value. Regrettably--hopefully only temporarily--this positive trend in the development of the net production of our agriculture has come to a halt as a result of last year's drought.



We have succeeded, therefore, in ensuring a favorable development not only in quantitative, but also in qualitative terms. For some time now, the efficiency of our utilization of live labor has been gradually improving. Earlier, however, the efficiency of our material expenditures had been constantly declining. Between 1980 and 1982 this tendency in our agriculture was turned around. In 1980 an outlay of 100 forints in material or material-related expenditures generated 144 forints, and 2 years later 147 forints worth of production. At the same time the prices of industrial products which make up a significant portion of our material costs have risen at a considerably faster rate than our agricultural producer prices.

Overall we can conclude that our agriculture has adjusted to its new course successfully: it has increased its production and improved the efficiency of its management. We are aware that in many respects we have just begun to work. Increasing our production and improving our economic efficiency and competitiveness are not one-time tasks; rather they are continuous processes which present increasingly greater demands, and which require solutions at increasingly higher levels every year.

#### The Sources of Development

Following the 15 March 1978 Central Committee resolution, and after December 1978, the agricultural policy which our party and government have relentlessly pursued has created opportunities that have allowed those employed in our various branches to assert their desire to work and their ability to create more fully. The social and political atmosphere in which our agriculture and food industry is able to function has been favorable.

The management-related, organizational and regulatory measures aimed at strengthening the basis of our stepped-up plans have been implemented on time every year. This has had a mobilizing effect on our agriculture and food industry. On several occasions the financial conditions of economic management have been tightened even during the course of the year. Understandably no one was happy about these steps. Virtually nowhere, however, has the deterioration of our economic conditions given rise to continuous complaints; what has begun to spread, giving us strength to improve our performance instead has been a spirit of "let us think over what we should do," together with a willingness to take necessary action.

In the 1970's, in the wake of the socialist reorganization of agriculture and of the strong economic and organizational consolidation which followed it, we built an agriculture in our country which has the ability to endure significant burdens. Between 1970 and 1980 the capital stock of our agriculture doubled. As a result we have been able in several branches of our production to establish the objective conditions that are necessary for modern, large-scale economic management.

Still another reason why the economic power and organization which our socialist big farms represent has been able to assert itself in the past few years is because our producer cooperatives and state farms have continued to become increasingly independent. The reform of our economic mechanism did not stop at the gates of our producer coops and state farms. The central orders relayed mostly by way of economic regulators which have led to the creation of a production structure for our agricultural production than can be adjusted to our extremely diverse local conditions, have contributed to our outstanding results. This greater independence has been an important factor in enabling our producer cooperatives and state farms to adjust to their new conditions more rapidly, and to overcome the unexpected difficulties that might arise in the course of the year.

One of the obvious signs of our readiness to solve the tasks stated in our agricultural policy and of our organizing ability is the rapid expansion of the household and small-producer branches within our socialist big farms and the consolidation of auxiliary activities. Our producer cooperatives and state farms have been highly instrumental in ensuring that the economic structures used in our household operations are properly utilized, that the hundreds of thousands of people involved spend some of their non-working hour time doing useful work, and that family members and pensioners also become involved in productive work.

Owing mainly to the production integrations organized by them since 1978, i.e. since the time our national economy first began to follow its new course of development, production has not only not declined, but has constantly expanded. Hence--despite the dynamic growth of large-scale development--small production continues to represent one-third of our agriculture.

In the past few years two types of small production have begun to gain popularity. One is the traditional form of household farming which is aimed mainly at attaining self-sufficiency, the other is specialized small production integrated by our producer cooperatives and state farms. Our big farms are the ones that provide the material, technical, professional and organizational conditions necessary for production and marketing. Just how important this is can be demonstrated by a single fact: the production of the fodder used in small farming takes up more than 20 percent of our big farms' arable land. The value of the services, produce, products, animals and equipment they provide has reached 11 billion forints; this is twice the amount that was spent in 1978.

Within the system of relationships between our big farms and small production the governing principles are the broadly interpreted concepts of social usefulness and the efficiency of production. This incentive-inspired cooperation also provides a respectable income for the big farms that have helped to create the necessary con-

ditions for production, and also for our small producers who are involved in agricultural production as a side activity. During 1978 almost as a second job on a work-at-home basis. Last year our co-operatives and state farms sold 76 billion roubles worth of products produced by small producers. Hence the small producers by the million and a half families involved in small production, representing broad segments of our society constitute an extremely valuable part of our commodity production.

The expansion of auxiliary activities has been instrumental in maintaining the economic stability of our big farms. Faced with by a need to make better use of their already established machine-repair facilities and a desire to provide continuous employment for their members, the farm workers, and to be able to satisfy demands for their services more fully, our farms have decided to consolidate their subdivisions involved in auxiliary activities. Also inspiring this decision has been a desire to counter the economic effects of subsidy withdrawals which in recent years have become increasingly common, and the growing profit content of auxiliary activities performed in our basic operation.

Compared with their 1978 level, the value of auxiliary activities in our Socialist big farms (computed at current prices) has doubled. Since a quarter (in our state farms half) of these auxiliary activities are non-food industry related, our selection of investments has increased. Our non-food processing related industrial operations which constitute almost 40 percent of our auxiliary activities have been performing considerable increased industry tasks, mostly within the integration of our large industrial enterprises. The hopes which we have attached to our auxiliary activities are beginning to materialize. We will continue also in the future to do everything we can to eradicate periodically appearing ailments, for by doing so we are safeguarding the interests of the great majority of our producers who perform their auxiliary activities without speculation, thereby also protecting the interests of agriculture and our national economy.

Of the sources that have led to the results attained in our agricultural production, special mention should be made of the measures that have been taken in order to protect the soil. Last year, for the first time in many years, the size of our fields was not only did not decline, but as a result of recultivation efforts it has actually increased. In addition, melioration which covers several billions of roubles a year has improved the productivity of our soils.

The aim of our investment policy has been to meet the growing requirements which production has been asked to fulfill. In agriculture and in the food industry, there has been a decline in the ratio of building investments in favor of machinery and equipment. Only our enabled us to further modernize production in

food processing enterprises. Between 1978 and 1983 the total engine power of our tractors has increased by 630,000 kw, thus reaching 3.36 million kw. During this same period the performance of our combine-harvester stock has improved by 14 percent.

Similarly significant steps have been taken to develop energy and material-saving production technologies. It is partly as a result of these efforts that compared with 1978--despite our growing production--domestic food production has cut its oil use by 300,000 tons. During this period its total energy use has declined by 6.9 percent. These savings have been realized in agriculture; in the food industry, despite a significant growth in production, total energy use has remained virtually unchanged.

Also considerable are the improvements that have been made in the utilization of artificial fertilizers in plant cultivation. The amount of artificial fertilizers used by agriculture in 1982 was practically the same as in 1978. At the same time (computed at constant prices) the gross production value of plant cultivation increased from 106 billion to 123 billion forints.

Fodder costs are responsible for most of the material expenditures of animal husbandry. In this area there have also been improvements in efficiency. This is evidenced by the fact that while the production of live animals and animal products rose (at constant prices) from 110 billion forints in 1978 to 121 billion forints in 1982, the amount of imported protein fodder used during this same period declined by 3 percent. It is true that by making better use of our domestic resources we have increased our protein fodder production. However, our utilization indicators have also shown improvements. The amount of feed grain necessary to produce a unit of meat has dropped by 1 percent a year. In other words savings have reached 300 million forints a year.

Our institutions of education and research have also been of great service to our agricultural production. Most of our research results have been more effective than before in helping to improve production in our agricultural branches in accordance with the requirements of our times. Our domestic hybrid-developers have offered 30 to 40 new strains a year for general production, and have introduced 10 to 15 new foreign strains and hybrids. Especially notable have been the results attained by our grain developers. According to calculations, the value of surplus products resulting from grain research is estimated to be around 1.5 billion forints a year which equals the amount spent by our national economy on agricultural research. Other areas of research, including those connected with the food industry, have also produced several results which can be put in good practical use.

During the past 5 years the number of university graduate specialists employed in our productive branches has grown by 7 percent,



to almost 21,000. In our state farms and producer cooperatives the amount of land per university graduate specialist is 180 and 290 hectares, respectively. The number and ratio of university graduate specialists has also increased in the food industry: nearly 4 percent of those employed here have completed university or college; the mental strength of our branches, therefore, has increased. To a great extent this has also been due to extension training. There has been an especially significant increase in the number of people whose expertise has been broadened as a result of courses offered within their respective branches and production systems with the aim of helping to solve a specific task.

Naturally, better mental preparedness does not guarantee improved performance. It merely makes it possible for us to manage the resources and materials available to us more rationally and wisely. For potentials to evolve they must be given the opportunity and the necessary incentives. Enterprise independence promotes factory democracy, for it is in that kind of atmosphere that it can best assert itself. Similarly steady has been the development of inside incentive forms.

The fact that in the past 5 years our agriculture and food industry have been able to claim significant achievements is due mainly to a change in perceptions. Hundreds of thousands of our managers and young physical workers have recognized--in part, under the pressure of our economic regulators--that we cannot meet our needs successfully by continuing to perform as before. Our changed conditions have led to a significant increase in the value of mental assets and know-how. The adoption and implementation of new technologies, the making of economic decisions that are the most sensible under the given conditions, the exploration of the hidden reserves of work and plant organization are all tasks which require greater know-how and a new way of looking at things.

#### The Inconsistencies of Development

The inconsistency which exists between the growth rate of agricultural production and the backwardness of our food industry's processing capabilities is not a new phenomenon. Great efforts had been made already during our previous plan periods to ensure that both in domestic and foreign trade increasingly greater proportions of our agricultural products are sold in a processed form as goods of higher value. Although as far as the rate of its production growth is concerned during the past 5 years our food industry has fallen slightly behind agriculture, some of its important industrial branches (the meat industry, poultry-processing industry, dairy industry) have expanded their processing capacities at a faster rate than their growth of raw material production. In spite of this--especially in the case of the meat industry--it has continued to require extraordinary efforts on its part to adjust to foreign market conditions. Last year our foreign market

conditions were such that selling our meat products was more profitable than exporting live slaughter animals or split hogs. It was evident, therefore, that we had to try to export as much cut pork as possible. In order to keep up with the demand, during the second half of last year the majority of our meat processing enterprises not only had to forget about having Saturdays off, but had to work on a great many Sundays as well.

While this kind of sacrifice and performance deserves every recognition, it is obvious that its shock-work like features cannot become permanent in the long run either in the meat industry or anywhere else. We must continue to keep the development of our food industry in the forefront of our efforts, if, given our present situation, not by constructing a great many new large-scale projects--for this we could not afford--, by upgrading our existing production facilities so that they can be more efficiently utilized. The production lines of many of our food processing plants are made up of machines of different capacities. The performance of a production line is determined, i.e. hindered by the least efficient machines. By replacing these machines the performance of our plants can be economically and rapidly improved. It is essential, therefore, to make machine procurement easier and to accelerate the rate of reconstruction in the food industry. In order to do this our system of regulators must be shaped in such a way so that it can equally serve as a means to relay our increased demands to the food industry, while at the same time facilitating reproduction on an increasing scale.

Our constantly growing quality requirements are another reason why we need technical development. If we want to keep up with the leading countries of the world in food production--and this is what our carefully considered economic interests seem to demand--then we must dictate a more dynamic rate of development in this branch. Only with the help of a food industry in which production is characterized by high quality, economy-mindedness and responsiveness to the demands of the market can the internationally recognized, fine production results of our agriculture better assert themselves.

The changes which in the food industry have helped to reduce centralization and increase the independence of our enterprises may promote the development of common interests between agriculture and our food industry. From the middle of 1980 to the beginning of this year seven of our food industry trusts have broken up, and 40 of their enterprises have become independent.

One of our continuing serious problems is the discrepancy which exists between our scarce storage and transportation facilities which has prevented us from choosing the best time for marketing. Four or five years ago we were lacking storage facilities and had very serious shortages of refrigeration space that would have been needed to store 2 million to 2.5 million hl of wine, and 1 million

to 6 million tons of grain which was considerable for production back then. Since then significant efforts have been made to build new storage facilities. During the past 2 years, for example, we have completed the construction of a 530,000 hl capacity wine storage facility which is more than what had been built during the previous five-year plan period. Still our storage capacity only increased by 100,000 hl due to the obsolescence of barrels used by some small producers. In the grain branch, the total capacity of temporary storage facilities is estimated to be around 1.5 million tons. We must do everything in our power to promote the building of storage facilities that will help to reduce our storage and marketing-related losses. We must also make certain, however, that our existing, less moderate storage facilities are kept in operation up to the limit of their economic use. At least as important for eliminating the existing discrepancy between production on the one hand, and transportation and storage on the other is steady production--at least in those branches where this is possible--for it enables us to use our conveyances and storage facilities throughout the year.

There are considerable inconsistencies in agriculture as well. While domestic grain production is--as far as its level is concerned--among the highest in the world, the production of a few vegetable types such as rough fodder and bulk feed is still far behind. Our feed corn yields are basically the same as the French average which is the highest in the world. Our silage corn yields, however, barely exceed half of the French average. Due primarily to our low rough fodder and bulk feed yields and to the high level of our grain production, domestic meat production has become unique in the world in that it is based mainly on such feed-grain consuming branches as poultry farming and hog raising. The importance of the bulk-feed and rough-fodder utilizing branches such as cattle and sheep breeding is disproportionately small, even considering our potentials and possibilities. The proportion of cattle and sheep in our meat production is 11 to 12 percent, compared with 34 to 35 percent in the Common Market countries, and 39 to 40 percent in the CEMA countries.

In recent years the discrepancy between the level and development requirements of our agriculture on the one hand, and the backwardness of its equipment and material supplier industries has lessened. Unfortunately, however, we cannot report similar improvements in our domestic food-processing equipment manufacturing industries. The level of development of a country's industrial and trade background greatly influences food production everywhere in the world. This is one of the reasons why it is so heartening to see all the things which our domestic agricultural industry has done during the past decade in order to improve its products. Of course, they still have plenty of work to do, for there are still many blank spots which can only be filled by way of imports. The excessive weight, lower productivity and greater fuel consumption of certain--import-

substituting--domestic machines do absolutely nothing to improve the competitiveness of the agricultural products which they help to produce.

The domestic availability of food-processing equipment is less favorable than the supply of agricultural machines, while only about 60 percent of our agricultural machine park comes from imports--mostly from socialist imports--; 80 percent of the equipment used in our food industry is imported, most of it from the capitalist countries. The limited size of our domestic food-processing machine production has created a difficult situation and a sharp discrepancy between the need to upgrade our food industry and our existing import possibilities. Right now we even have problems obtaining and replacing parts. In 1978 and 1979 altogether 5.3 billion forints worth of hard currency was spent on building up our food industry; the foreign exchange that has been made available for this purpose during the past 4 years, however, has fallen short of that figure, even when taken as a whole. In the meantime, our zero-depreciation, spare-parts intensive food-processing machine stock has increased by 57 percent. There are similar tensions awaiting relief in the packaging material supplies of our food industry.

The growing export interest of food production, the increasing costs and the decline of world market prices have been the sources of many conflicts. The per-unit energy use of agricultural and food industry production has dropped. The energy costs of production, however, have continued to multiply. While between 1978 and 1982 total production in the food industry increased by 36 percent at current prices, its energy costs increased by 180 percent, to 7.7 billion forints. In this respect agriculture is in a similar situation. Despite a 6.9 percent decline in its energy use, its cost account shows 18 billion instead of 12.4 billion forints. Although not at this same rate, other food-production related costs have also increased, and they have only partially been offset by producer price increases.

In the long run such rapid increases in costs may threaten our strongly export-oriented development. As we have already found out last year and the year before, if for whatever reason one of our products is not competitive enough in the world market, it becomes impossible to sell. This leads to serious losses both for the Hungarian national economy, and for the fate of enterprises producing the product in question. Bringing rising costs under control and increasing sales revenues--which are two of the basic conditions of profitable marketing--have become the greatest problems facing our branches today. Hence even more than ever before the task of increasing the efficiency of investments must be made the central consideration of our production organizing and production-structure developing efforts.



The differentiation which has occurred in agriculture among some of our farms in recent years has not slowed down during the present period of our development. The gap between farms with good and results and those which perform poorly has even widened somewhat, for those which are economically stronger have continued to develop at a dynamic rate. In principle, our economic policy does take this differentiation into account by placing greater emphasis on the development and production growth of farms and enterprises that are more efficient. Our experiences show that whenever our regulations are tightened, this places most of the burden on our stronger operations. This has been done to allow farms with less favorable potentials to continue to operate, for the goods and products they produce are necessary for our country. There have been several orders issued with the aim of helping to improve their situation and to maintain and increase their productive capacities. Real changes, however, came in those almost 130, individually examined state farms of consistently low profitability where we had expended significant budgetary resources to remedy their situation. Today, most of them are producing profitably. The reason why in some cases the gap between high and low profitability farms has narrowed is because the previously more profitable enterprise has been unable to compensate for the additional burdens placed on it. This danger is a warning that both in the medium and high profitability categories greater attention should be paid to maintaining and improving the level of production and to exploring hidden reserves.

#### The Direction and Tasks of Development

The most important tasks of our economic policy are the same this year as they were before. In 1984 it will take great efforts and improving economic performances once again for our country to retain its international solvency, to preserve our standard of living and to make some improvements in our living conditions. For we cannot count on future changes in the international environment to be favorable for us, and the domestic--material, technical and incentive-related--conditions of production are also not expected to show real improvements compared with previous years.

It is under these kinds of conditions that our national economy and food production must improve their performance. This can only be made possible by way of better organization, rational material and energy use, better disciplined and more quality-conscious work. These requirements have been included in this year's plans.

In 1984 agriculture must somewhat exceed its 1982 record output, and in the food industry we expect a 2.6 percent increase in production compared with last year. The projections of the stepped-up plan can be realized even under average weather conditions. This not only means, therefore, that the level of our already good domestic supplies can be maintained and in some aspects even improved, but that at the same time we can also realize our export

projections. Granted, for this latter to happen the international market prices of agricultural products cannot drop as drastically as they did last year. While our early experiences this year have not given us any reason for optimism, in the long run there is hope that the situation will change for the better.

Most of the conditions of our 1984 agricultural production are already known. How much our larger-than-ever animal stock--which we also have sufficient fodder to maintain--will produce can be estimated with considerable confidence. In plant production there is more uncertainty: the weather is unpredictable, and the quality of some of the materials necessary for production has become less adequately suited to support the requirements presented by larger yields and efficient production than before. In spite of this, a 15 million ton grain harvest is an attainable goal. In order to make it possible, however, in the spring we will have to increase the sowing area of grain crops by a few percentages.

This production program fits in well with our plans for the coming years. In this branch of production it takes relatively fewer investments to keep up with the leading producers of the world. The export efficiency of grains is among the best, and we also have good marketing prospects. Even if we stopped adding to our already existing and relatively large bulk-feed consuming animal stock, we would still need 10 million tons of feed grain to obtain the meat, milk, eggs and wool that could be produced.

We intend to continue the intensive grain program which began in 1981. During its first 3 years we have produced 85,000 tons more wheat, 375,000 tons more corn, altogether 460,000 tons more grain per year on 134,000 acres than had been projected by the program. This year our intensive grain program, which we finance in joint cooperation with the World Bank, will be extended to 600,000 hectares; in the process modern, new technologies will be introduced that will help agricultural production and will have a positive effect on other plant-production branches as well. What is most needed in grape, fruit and vegetable production is not to increase quantities, but to improve the quality and to cut or eliminate losses.

As far as animal breeding is concerned: our milk and egg production should be aimed primarily at satisfying domestic demand. Slaughter animal production, on the other hand, will depend mainly on our efficient exports. The bulk-feed production based development of our slaughter cattle stock appears to be positive in the long run. The improvements that are being made in the efficiency of pork production--by always selecting the most advantageous of the many processing options available--promise satisfactory marketing prospects. The present worldwide glut of slaughter poultry will limit our production possibilities, although hopefully not for long.

This year and in the coming years our agricultural and food industry production will have to pay even closer attention to the requirements of the market. Production decisions can only be made by knowing both the expected domestic and international market conditions. Accordingly, we must expand our knowledge of the market in order to strengthen production security in our agricultural branches. With the help of organizational changes, and by reducing the travel distance of products our farms "must be moved closer" to our export markets. Poultry meat production is one of the areas where we have some favorable experiences in this regard. Our producers can directly familiarize themselves with and experience the difficult marketing conditions facing them. This helps to avoid the dangers which stem from overproduction, and allows the most efficient producers to sell the greatest volume of products in the marketplace. Our positive experiences should also be applied, as soon as possible, to other branches of agriculture.

Improving our international competitiveness has been--and will continue to be in the long run--one of the general requirements of recent years. Our highly restricted imports have slowly begun to endanger the export performance of our branches. Another reason why increasing our imports is vitally important for our agriculture and food industry is because they can help to consolidate our already attained international position in production.

In our national economy only those can hope to increase their exports who are able to produce surplus exports. By making use of our country's natural resources, our branches have already significantly surpassed their imports with their export performance. Their ability to do so must and can be increased during the coming years, but this will also require imports.

Our experiences show that next to efficiency the most important criterion for increasing exports to the point where they can offset our growing imports is having a better quality product. During the period when our main objective was still to eliminate our supply shortages, it was the quantity indicators of food production that were put in the forefront. Under the conditions of shortage management quality requirements became relaxed and often were not even stated. In the food industry, having to adhere to standards did entail certain quality requirements. And in general, our individual industrial branches did observe them. In many respects, however, the prescribed quality specifications were adjusted to domestic standards that were set rather low.

By now the situation has radically changed. Producing outstanding quality has become an essential condition for our exports to the capitalist countries, just as it has in our CEMA markets. The steps that have been taken so far to improve quality have not been satisfactory. Only with the joint effort of research, production, processing and our capital-equipment and packaging-material producing background industries can we improve the quality of our products.

It should be understood that the strictness of our quality requirements is a reflection of the strictness of the marketplace, and that those who want to sell must adjust to the demands of the buyer, irrespective of their intentions and opinions.

One of the cornerstones of our agricultural and cooperative policy --in addition to our commitment to the principle of multi-sectorial production--has been our continued emphasis on the primacy of developing our socialist big farms. Our investment trends and the modernization of our production are signs that we wish to continue in this direction. This can be especially clearly seen in the field growing of plants. Due to a lack of sufficient investment funds, in animal husbandry the expansion of large-scale production has been very modest in recent years.

In the coming years we must continue to take advantage of the opportunities offered by small production. In order, however, for the integration of small production to continue, bringing more and more modern small machines and equipment into production is not enough. We also need to increase the economic strength of our big farms. One way to do this is by making investments for which our national economy has such limited resources.

Our investment resources can only be expanded by increasing the income-producing capacity of our national economy. In recent years, the income-producing capacity of our agriculture and food industry --as indicated by their production values and greater contributions to our revenues--has increased. This is the process which we must continue to strengthen this year and in the coming years; it is also on the basis of this process that future increases in investment resources should be determined in the food economy.

Our calculations show that good farm-organizing activities and minor modernizations promising quick returns can also save us billions in material use. Owing to a better utilization of byproducts and waste materials resulting from its production processes, to the elimination of various sources of loss and to the spreading of basic-material saving technologies, our food economy was able to save 2 billion forints in 1982, and 3 billion to 3.5 billion forints last year. This year's efforts should bring further and even greater savings than before.

In our agricultural branches the material-technical conditions of our 1984 production are in accordance with our production forecasts. How our existing resources are utilized depends largely on human factors. The organizational changes that are taking place in our enterprises are aimed at improving their internal management-incentive system. The experiences of our best farms and enterprises also show that improving our incentive systems is not a one-time, but rather a continual task. It must be constantly adjusted to the changes that might occur in the material, technical and economic conditions of production.



The demand for the introduction of modern technologies in our increasingly independent farms and enterprises is well justified. It should also be pointed out, however, that the awareness level of production organization has been lagging behind the present development level of our productive forces. The quality of the techniques and technologies used has often exceeded the quality of organization which has led to weaker performances than would have been possible. Our receptiveness to new and better solutions has become highly refined in recent years. However, neither this, nor the rate at which these solutions have been put to practical use have given us reason to be satisfied.

Improving our agriculture and food industry has never been an easy task. It was not easy even when our central concern was production growth, and when still little attention had to be paid to efficiency, international competitiveness and quality. Nor was it an easy task during the significant production developments following the socialist reorganization of our agriculture, as a result of which today Hungarian agriculture is referred to as a system which has been able to break out of its centuries of backwardness with unparalleled speed. If for no other reason it has been difficult because the development of agriculture has always required huge material investments everywhere in the world.

The burden of development, however, which has been placed not only on those employed in agriculture, but also on our entire society, has served a good cause. This is clearly reflected in the many ways in which agriculture has contributed to the stability of our country's economic life (and consequently of its domestic policy). Had we not succeeded in the 1960's and 1970's to develop the kind of social unity that was needed to expand the development resources of our socialist agriculture, and had those employed in our agricultural branches failed to utilize those resources as well as they have, today not only our domestic agricultural production, but our entire national economy would be in a more difficult situation. In other words, our efforts have been effective and fruitful.

It is owing to our well-coordinated social, political and economic performance that our agriculture and in general our food economy as a whole has been able to fulfill its obligations during this most recent period which has been characterized by efforts to put our economy on a new course of development. In many respects this has been an involuntary course which has been set for us not only by the performance of our own economy, but also by the development of international economic and political life which has been so unfavorable for us. The possibilities of economic development—even if our external conditions were to ease—can only be sought within ourselves. In addition to continuing our cooperation with the fraternal countries, the members of CEMA, we must also learn to rely on our own abilities and strengths to lead us forward. And the past few years have shown that we have the necessary strength and

ability to advance. The bases on which the accomplishments of previous years were achieved, and on which our present plans have been built are also the foundations of a secure tomorrow, and our agricultural branches will continue to serve the interests of their workers and the total ~~community~~ of our country well.

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## BRIEFS

**ECONOMICS BRIEFING FOR PZPR LECTURERS**--On 26 April at PZPR Central Committee headquarters a meeting was held between lecturers of the PZPR Central Committee and the PZPR provincial committees, Stanislaw Ciosek, minister of labor, wages, and social affairs, and Zdzislaw Krasinski, minister-director of the Office of Price Affairs. Both ministers discussed problems pertaining to wage and price policy and made a special point of noting that an increase in pay and living standards can be best accomplished through the steady and efficient boosting of production, the improvement of product quality, production cost reductions, the streamlining of employment patterns, and the proper management of working time. Government programs geared toward the protection of the lowest income groups were also emphasized. Answers were also given to numerous questions concerning a wide range of issues related to wage and price policy and the country's economic problems. The meeting was chaired by Janusz Janicki, deputy director of the Ideology Department of the PZPR Central Committee. [Text] [Warsaw TRYBUNA LUDU in Polish 27 Apr 84 p 3]

**'NOT' POSITION ON ENERGY POLICY**--Basic problems of fuels and energy resources management were the main topics on the agenda of a meeting of the NOT [Chief Technical Organization] Main Council held on 26 April. The meeting was billed under the heading "The Engineer's View of Energy Resources Management." The recommendations arrived at as a result of the debate held at this meeting will be forwarded to the appropriate authorities as an official assessment of the engineering profession. At the same time, these recommendations will serve as action guidelines for the NOT scientific and engineering professional associations. [Text] [Warsaw TRYBUNA LUDU in Polish 27 Apr 84 p 6]

**PROGRESS OF DEBT RESCHEDULING**--Members of the task force of foreign commercial bank representatives currently visiting Poland were received on 26 April by Stanislaw Nieckarz, minister of finance. The talks that were held concerned the rescheduling of maturities falling due for payment to this group of creditors during the period 1984-1987. It is reported that both sides made considerable progress during these talks toward reconciling their respective positions and that this bodes well for the signing of a preliminary agreement. [Text] [Warsaw TRYBUNA LUDU in Polish 27 Apr 84 p 6]

REPORT CARD ON ENERGY MINING--On 24 April the collegium of the Ministry of Mining and the Power Industry met to analyze the economic performance of the mining and power industries in 1983 and also the performance record racked up during the first quarter of 1984. A successful performance record was also turned in during the first quarter. The initiation of many organizational and technological improvements contributed to a rise in labor productivity. Accordingly, hard coal production was up during the first quarter by 1.4 million tons over the same period last year. Electricity production amounted to 37.4 billion kwh and was up by 9.9 percent over the same period last year. After reviewing the long-range program for the development of the power industry's production and repair and maintenance infrastructure (through the year 2000), the collegium concluded that there will be a growing demand for repair and maintenance services in the power industry over the next few years. This is due primarily to the already far advanced depreciation of the industry's plant and equipment. Special problems are cropping up right now with regard to deliveries of pumps and spare parts for carburizing, deslagging, and ash removal systems. Regardless of whether or not the industry's existing plant and equipment base is operated at full capacity, it is still imperative that an effort should be made to bring online additional production capacities. [Excerpts] [Warsaw RZECZPOSPOLITA in Polish 25 Apr 84 p 2]

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## ACTIVITY OF ACADEMY OF ECONOMIC STUDIES REVIEWED

Bucharest SCINTEIA TINERETULUI in Romanian 10 Apr 84 pp 1, 2

[Article by M. F. Sandru]

[Text] A prestigious higher learning institution, figuring on the country's university map as a powerful center of education-research-production, the Academy of Economic Studies, by its expansion in recent decades, illustrates the new destiny of Romanian higher education, the complex process of upgrading schooling, by closely tying it to the concrete problems of socioeconomic activity, by the concern for constantly connecting the contents of the instructional and educational process to the basic facets of the latest advances of modern scientific and technical revolution. In a short span of time -- if we have in mind the tradition of the 7 decades that have elapsed from the inception of the institute -- here, in the heart of the Capital, in the zone between Piata Romana and Calea Dorobantilor, there has emerged a large and modern university complex, with a powerful material base, with areas destined to education, research and production, that provide increasingly better conditions for instructional-educational activity, which is permanently synchronized with the dynamics of socioeconomic activity, with the needs for training highly qualified experts.

The outstanding input of the Academy of Economic Studies into the training of specialists is illustrated by the fact that during the 1965-1983 period 30,248 economists graduated from the Academy and 762 doctors of economy and 5,236 post-graduates upgraded their training. During the 1978-1983 period alone about 5,000 experts attended various forms of improvement of their training. Part of this context is the constant concern for upgrading the training of the academy's own staff and of the staffs in economic lyceums; the 1978-1983 period alone saw the completion of 224 tours of duty in production by teaching personnel; the development of 46 scientific seminars; the advancement, with permanent appointment, grade I and grade II, of 257 teaching personnel in specialized lyceums; the unfolding of projects in 13 Romanian lyceums as part of sponsoring relationships by the Academy of Economic Sciences. Foreign young

people from countries on five continents have received and are receiving training at this major university center in Bucharest.

The essential changes that have occurred in the life and activity of this institution in the past two decades are graphically illustrated by a few figures: while in 1965 the area set aside for the educational process totalled 5,340 sq.m. today this area is far larger, totalling 40,050 sq. m., and including a great number of auditoriums, seminar halls, laboratories, consulting rooms, a computer center, a central library and 39 branch libraries, eight reading rooms, plus many social and cultural amenities, clubs, cafeterias, entertainment facilities, sports centers, medical offices, and the like. Characteristic of this broad material base -- designed to provide best possible conditions for training about 10,500 students -- are the qualitative changes, that involve provision of all the theoretical and practical training units with up-to-date computer and research equipment. Whereas in 1965 the value of the laboratory equipment stood at 9,456,680 lei, the figure is now more than 14 times higher: 130,064,057. A good example is provided by the laboratories of the Chair of Economic Cybernetics, a genuine "factory" of computer technology. It is provided with many facilities -- medium capacity computers, minicomputers, terminals, which are interconnected either directly or through communications lines and serve both the teaching process and research work.

Prof. Dr. Ilie Vaduva, rector of the Academy of Economic Studies, stated: "The expansion of this academy is the outcome of the constant concern, of the guidelines and tasks outlined for us by party secretary general Nicolae Ceausescu. The substantive improvements of economic studies, on the basis of the revolutionary concept of our party, in line with the requirements of social practice, with the overall progress of science, focus on the inextricable twining of the instructional-educational process with production and scientific research, upgrading of the profile and specialized structuring, reduction of the number of disciplines and improvement of their contents, with emphasis on concern for enhancing the creativity of the would-be experts; ensuring of a system of knowledge that is common to all specializations, in order to assure the training of economists with a broad specialized range, increase in the volume of applied activities for the development of sound practical habits, introduction and use of modern methods of transmission of knowledge. Special attention has been paid to prompt integration in the educational process and in training work of the new measures and guidelines resulting from the party policy, from the reports of Nicolae Ceausescu, on the problems of the new economic-financial mechanism, the higher efficiency and quality of all socioeconomic activity, with concomitant steps taken to more rapidly incorporate in the live educational process the results of domestic scientific research, of the advances of modern science."

The concern for realization of an instructional-educational process of a high caliber, that would ensure superior training to graduates also is reflected in the many initiatives -- unique and bearing the mark of actual "perception of the future" -- which focus on upgrading the training process, absorption,

in college activity, of the latest techniques and technologies, of latest educational methods. A conclusive example in this regard involves the Polyvalent Consulting Room of Teaching Technology, conceived on the basis of a complex system, that incorporates many methods and procedures from the fields of electronics, automation and audiovisual technique. The courses and seminars involved largely differ from conventional activities, as the teacher can, through a complex control panel, successively or simultaneously use, while explaining, films and slides, sound illustrations, projections of charts and synopses, comparative images, synoptic maps, graphs and organigrams, a fact that considerably enhances the information transmitted and the efficiency of absorption of information. The model courses and debates held here can be followed by means of a closed circuit television system, with the opportunity created for rapid transmission of valuable experience and information on the overall university activity. Likewise, it should be noted that the computer facilities in the laboratories of the Faculty of Planning and Economic Cybernetics and in the units of the specialized chairs of the other faculties, focus some aspects of their activity on supporting the teaching process, achieving through interconnection a unique and efficient data-processing system. Moreover, experts at the central library developed an electronics system which minimizes the time needed for asking and waiting for a book. Currently handling a relatively small proportion of instructional-educational activities by means of these sophisticated techniques, the academy is constantly concerned with expanding and upgrading these techniques, so that the teaching process may considerably enhance the efficiency of transmission and imbibing of knowledge, going into greater depth in new fields, that otherwise would be difficult to cover by the conventional teaching system. Moreover, the "climate" of a modern educational process, with a well-structured data-processing system offers the prospective specialists, the current students, a concrete example of assimilation of these techniques of assimilation in their daily life, with spectacular effects in improving the productivity of mental activity. The Academy of Economic Studies thus strives to become a genuine pilot-station of higher education, providing other domestic institutes and even some foreign guests with an embryonic model of the instructional-educational process, an actual anticipation of the education of tomorrow. Let us also recall that at rectorate level there is an intensive concern with design and use of computer systems destined to rationalize and modernize management and handling of all extraeducational activities.

"The activity of teaching, education with research and production," states Prof. Dr. Tudor Kiriu, president of the Academy of Economic Studies, Bucharest, as indicated by party secretary general Nicolae Ceausescu, on the creation of each faculty as a powerful unit of socioeconomic education, research and practice. The integration program involved a wide range of activities, including topics of scientific research developed for enterprises and organs of economic synthesis, assistance and consultation provided to central enterprises and other economic units, upgrading of training of specialists in production and research, economic propaganda achieved through lectures and

discussions, orientation of students' practical production work and of teachers' tours of duty in production, in light of the major needs of the economy."

For instance, basic research was oriented toward development of economic theoretical and practical projects, with emphasis on cooperation of the Academy of Economic Studies with research institutes and central bodies (Central Institute of Economic Research, "Stefan Gheorghiu" Academy, Institute of Chemical Research, Central Directorate of Statistics, State Planning Committee, National Council for Science and Technology, and so forth). Many research projects were completed on the basis of contracts, with recipients including the Institute of Chemical Research, Bucharest Heavy Machine Enterprise, Institute for Power Research and Modernization, "Electrometalia" Enterprise, Studies and Design Institute for Land Improvements, the Ministry of the Chemical Industry, Brazi Petrochemical Combine, Galati Institute for Naval Research and Design, Braila Man-Made Fiber Combine, Arad Railroad Truck Enterprise, Bala Mare CMB, Cimpia Turzii Metallurgical Combine, Technoexport, and so on. Special attention was paid to upgrading the activity of enterprises, in light of the new economic-financial mechanism, enterprises such as "23 August," Tirgoviste Combine for Special Steels, Bucharest Enterprise for Pharmaceuticals, IREDIAS, "Timuri Noi," and so forth. Last year, for instance, an interdisciplinary collective formed of 85 teachers, 150 students and 15 experts from enterprises conducted an activity of complex research centered on improving the new economic-financial mechanism at the Motor Factory of the "23 August" Enterprise. Major accomplishments were also obtained in developing projects on improving labor productivity, based on scientific organization of production (at IMEB, CMB Tirgoviste, INCA, Poligol, Enterprise for Plastics, Pustavaria Romana, and other units), by using modern methods and procedures in programming production, in computer and record-keeping fields. Significant studies involve expansion of energy and raw materials base, capitalization on reusable materials and by-products, reduction of use of raw materials and fuel, and so forth.

The rector of the academy stated: "Achievement of a new quality of students' training, closer intertwining of the instructional-educational process with economic reality, with the needs of the future jobs, are coupled with enhancement of concerns for the communist, revolutionary education of students. Accomplished primarily as an intrinsic component of the teaching process and through a complex range of political-educational activities, the shaping of the revolutionary profile of the prospective experts focuses the attention of all factors in the Academy of Economic Studies." In this area, outstandingly instrumental is the powerful Union of Associations of Communist Students. The dialogue with Cristina Ionescu, chairman of the Council of this union, pointed out the active spirit of the association work, focusing of all initiatives and projects of students in continuous upgrading of the instructional-educational process and improving the students' training in line with the major needs involved in the progress of Romanian higher education."



## REFORM IN TAX SYSTEM DISCUSSED

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 11 Apr 84 p 3

[Article by C. M.: "More Rapid Achievement of Harmonization of the Tax System"]

[Text] One of the characteristics of our tax system is certainly the definite discrepancy between taxes and other tax forms on the one hand and the basic and special turnover tax on the other. The relations formed in this way call for harmonization of the tax system. Establishment of more harmonious relations would avoid the transfer of tax obligations from certain taxpayers to others, which could actually have adverse consequences, especially since there is a pronounced tendency to transfer tax obligations from personal incomes to the income of organizations of associated labor. Were this tendency to continue and possibly escalate, it would create a situation in which excessive taxation of income would reduce the reproductive capability of organizations of associated labor.

Correction of the not exactly favorable structural relations in the system of total public revenues is therefore indispensable. According to the opinions of specialists, in future the role of direct taxes should be strengthened in lower-level sociopolitical communities, i.e., the opštinas, obligations on personal income should continue to be transferred to income up to a limit which would not threaten the reproductive capability of organizations of associated labor, and the fiscal role of indirect taxes should be diminished relative to that of direct taxes.

#### The One-Sided Orientation of Tax Policy

Insistence on correction of the tax system and on its harmonization is also based on the fact that in the present system of public financing on the basis of taxes and contributions, resources have mainly been provided to cover the necessary expenditures of sociopolitical communities and self-managed communities of interest, but at the same time sufficient consideration was not given to the level of the burden on taxpayers or to the quality of services furnished by the "users" of those taxes, the agencies of sociopolitical communities and the self-managed communities of interest. Given this situation, some have said that there ought to be a gradual reduction of the elements of social reproduction, along with increased and differentiated taxation on

sales of products which are not of essential importance to the standard of living of the population, and also that funds should be set aside on the basis of taxes and contributions in proportion to the economic condition of the taxpayer, while deductions and exemptions would operate directly toward achievement of the goals set by development policy and the policy of stabilization.

Socialist Republic or Socialist Autonomous Province	Income Per Em- ployee	Tax and Contribu- tion Per Employee	Share of Income		Tax and Contribu- tion Per Worker
			Of Taxes	Of Contribu- tions	
Bosnia-Herzegovina	287,000	13.50	0.86	3.68	4.54
Montenegro	242,000	8.54	0.31	3.21	3.52
Croatia	351,000	35.89	1.69	8.51	10.20
Macedonia	233,000	10.97	0.87	3.82	4.69
Slovenia	418,000	42.87	0.83	9.41	10.24
Serbia	315,000	30.55	3.74	6.45	9.69
Kosovo	170,000	7.42	0.24	4.11	4.35
Vojvodina	152,000	9.58	1.22	1.50	1.72
Yugoslavia	324,000	26.06	1.67	6.35	8.03

#### Equalization of the Tax Burden

The trend of tax rates on income and personal income indicates the need for harmonization of tax policy.

#### Tax Rates in 1972

Socialist Republic or Socialist Autonomous Province	Rate of Tax	
	on Income	on Personal Income, %
Bosnia-Herzegovina	3.00	—
Montenegro	0.40	0.80
Croatia	1.81	3.60
Macedonia	1.00	0.50
Slovenia	0.20-3.85	1.40
Serbia	3.00	1.37
Kosovo	0.50	0.50
Vojvodina	3.00	2.00

The unity of the economic system and the unity and stability of the market demand that the tax system and tax policy be instituted on common foundations throughout Yugoslavia. If this is to be achieved in the most integral and effective way, there will have to be harmonization of all the elements which are disrupting the unified economic system and the unified Yugoslav market. All economic entities also have to be afforded more uniform conditions for the conduct of economic activity, which is not now the case, and the great disparity has to be overcome in the burden placed on the economy, on unions and on individuals. After all, this situation in the field of taxation inevitably shatters homogeneity and the feeling of community. At the same time,

there is a need to eliminate all elements which cause outright or concealed discrimination among taxpayers and those causes have to be corrected which have an adverse effect on the voluntary pooling of labor and capital and on the implementation of the uniform stabilization policy. There is also a need to do away with the present diversity of taxes and to bring the types and basic elements of taxes into accord. The view has been expressed that this ought to be done with the some 20 kinds of taxes which now exist, taxes on the income of organizations of associated labor, the tax on the personal incomes of workers, the tax on the income and property of individuals, taxation of foreign persons, and the special turnover tax. As for types and amounts of tax deductions and exemptions, the essential thing is to achieve harmony in those exemptions and deductions which are relevant to the unity of the market and economic development so that the republics and provinces are able to introduce them independently of their development policy and stabilization policy.

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## DATA SHOW SHORTCOMINGS IN TAX SYSTEM, POLICY

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 11 Apr 84 p 3

[Article by C. Milanovic: "Proportional Distribution of the Burden"]

[Text] The long-range economic stabilization program has among other things initiated addition to and coordination of the tax system and tax policy. As is well known, this adjustment is supposed to be based on the following:

- i. fuller achievement of the payment of taxes by organizations of associated labor in proportion to their income and on payment of taxes by workers and individuals in proportion to their economic strength,
- ii. enlargement of the role of the tax system as an instrument of economic, stabilization and social welfare policy instead of the dominant fiscal function it has had up to now, and
- iii. gradual change of relative relations between revenues from indirect and direct taxes and also revenues from the basic and special turnover tax.

The radical reform of the present turnover tax would also tend to bring about a change of price parities, which at the present moment would not contribute to the stabilization efforts. The necessary additions need to be made: gradual reduction of the relative importance of the special republic or provincial or opstina turnover tax relative to the basic turnover tax; and then competition and conflict in policy between the basic and special turnover tax have to be avoided so that when the basic turnover tax is reduced for objective reasons, the special turnover tax is simultaneously reduced; elements of social reproduction and the means of labor have to be gradually omitted from taxation; the principle of tax exemptions has to be applied consistently; changes in rates have to be made in conformity with criteria set forth in precise terms; and a study needs to be made of the justifiability of the present differentiation of the rates of this tax, especially in the case of the special turnover tax.

In addition, more consideration will have to be given in future to the elasticity of a product's supply and demand relative to price changes when the tax rates are being raised or lowered--in order to restrict or augment consumption. Disparity will gradually have to be eliminated in the taxation of

the trade in imported products and household products. In the context of carrying out the commitments to strengthen the reproductive capability of the economy, it is not possible to examine the tax system and tax policy separately, out of the context of the system for realizing total public revenues or the system of public financing. The reason is that revenues derived from taxes comprise about one-third of total public revenues to finance government and the social services, and there is a tendency for that portion of revenues to shrink more and more.

#### Financing Public Needs and Social Services

<u>Type of Revenue</u>	<u>Index 82/81</u>	<u>Proportional Breakdown</u>	
		<u>1981</u>	<u>1982</u>
Revenues of budgets (taxes)	126.08	37.61	36.68
Revenues of SIZ's (contributions)	129.28	46.78	46.80
Other revenues			
SIZ's and funds of DPZ's	<u>136.70</u>	<u>15.61</u>	<u>16.52</u>
Total	129.23	100.00	100.00

[SIZ = self-managing community of interest; DPZ = sociopolitical community]

It is evident from the table that revenues based on taxes represent 36.68 percent of total revenues to cover public needs, while 63.32 percent come from other sources. We note in this connection that relative to 1981 there has been a change in the proportional breakdown of these revenues. There is a slight drop in the share of taxes and an increase in the share from other sources.

At the same time these relations also indicate the need for objectivization in establishing a realistic structure of tax policy and the tax system so as to avoid the inconsistencies that exist at present. On the other hand, there is also a need to set forth more realistic scales for collecting resources from the economy for those purposes. That is, until near the end of the seventies Yugoslavia was among the leading countries in Europe with respect to the burden on the social product, and only during the eighties, as part of the stabilization measures, has there been a certain relief, and that has also affected taxes. Thus over the period 1978-1982 the social product increased 3.2-fold, but revenues for government and social services increased 2.7-fold.

Now that we are talking about lightening the tax burden on the social product, we should also mention the motives for moves of that kind. This relief did not arise out of relevant measures in the field of public expenditure, which normally would have occurred if we bear in mind that appropriations for those types of expenditures are excessively large relative to our real capabilities. It is the result of forced measures, and this has had the consequence that a portion of expenditures has been transferred from budgets to other sources of financing and some of the obligations from the budgets have been extended.



Year	Social Product, millions of dinars	Index	Revenues Collected for General Public Purposes, millions of dinars		
				Index	Share
1978	901,815	100.0	398,273	100.0	44.14
1979	1,165,417	129.2	499,259	125.4	42.84
1980	1,553,089	133.3	628,707	125.5	40.36
1981	2,208,250	142.2	826,385	131.9	37.43
1982	2,925,724	132.5	1,068,005	129.2	36.51

When we bear all this in mind, along with the need to relieve the economy of excessive payments and put it in a position where it can conduct business normally, it is necessary to speed up the transformation of a portion of the indirect and direct taxes. However, say the specialists in this field, it is not possible to do that so quickly because of the "function" of indirect and direct taxes in financing. That is, in the present situation, when the budgets of sociopolitical communities rely on indirect taxes to such a high degree, reducing revenues from those sources would bring about a quite considerable lightening of the burden of the socialized sector of the economy represented by direct taxes. An example is sufficient to show what this could mean. It is well known that exports are exempted from the turnover tax and that at the same time it is indispensable to stimulate exports so that producers have a material incentive to go out onto the foreign market.

Should there be a very drastic reduction of the turnover tax, there would be less funds to stimulate the export orientation, and the effects of that are well known. The turnover tax also has the function of a certain regulator of supply and demand and of balance between amounts of money and stocks of goods. It is well known that about 60 percent of funds for personal consumption originate from income other than permanent employment in the socialized sector. If there were any very pronounced reduction of this form of taxation, a sizable portion of that income would not be taxed, which would not only favor those persons, but also would mean a growth in the resources and buying power of one stratum of the population, which would bring about new blows to the market, given the present discrepancy between supply and demand.

A further analysis of the effects of reducing the turnover tax indicates that it would have the consequence of a change in relative prices and that would cause a considerable rise of direct taxes, specifically the income tax and the tax on personal income which is derived therefrom. (These problems are already being discussed in the Slovenian Assembly, where they are examining tax policy and equalization of the tax burden.) Financial specialists, then, point out that if the turnover tax is transformed into direct taxes, into the tax on the income of the OOUR [basic organization of associated labor] and the tax on the personal income of workers, by just one percentage point, the income tax would increase 6.4-fold and the tax on personal income of workers would increase 11-fold over the present burden.

In any case, there is a need for redistribution of tax burdens. This is under discussion, and the optimum solutions are being sought, in spite of the

understandable resistance, since the users of these funds have difficulty reconciling themselves to changes in the sources and amounts of funds, although it is imperative that the economy be relieved as soon as possible of these high payments.

#### Share of Various Types of Taxes in Tax Revenues

<u>Tax Type</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Basic turnover tax on products	50.73	54.59	54.28
Special turnover tax			
Republic	9.05	9.52	9.91
Opstina	<u>12.72</u>	<u>11.74</u>	<u>12.20</u>
Total turnover tax	73.42	75.86	76.39
Tax on income of OOUR's and work communities	13.84	12.28	11.12
Tax on the personal income of workers derived from permanent employment	<u>6.95</u>	<u>6.63</u>	<u>6.86</u>
Total tax on the income of the OOUR and the personal income of workers	20.80	18.92	17.96
Tax on personal incomes of individuals (farmers, craftsmen)	3.54	3.40	3.37
Taxes on income and property of individuals	2.23	2.80	2.28

It is certain that these figures do not require comment, nor does the case have to be made that something needs to be changed in tax policy in order to establish more realistic criteria for taxation on that basis.

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